International policies for driving participation

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Bridging the Gap

International Database on Employment and Adaptable Labour

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Executive Summary

- The Lisbon targets are not achieved. Many countries had the Lisbon employment targets in sight, until the financial crisis blocked their path. The unemployment target has always been too ambitious, none of the EU27 countries will achieve 4% in 2010.
- Short-term fluctuations however do not solve the long-term challenges of a tightening labour market, the consequence of an ageing population. Solutions must be found for quantitative as well as qualitative mismatches between labour demand and labour supply.
- In 2050 a 'potential employment gap' of around 15% of total labour demand (35 million people) develops under a *ceteris paribus* baseline scenario. A hypothetical 'no migration' scenario underlines the important role of labour migration in bridging this potential gap.
- Increasing participation is a necessary but probably insufficient solution, especially in countries where employment rates are already above average. Increasing (real) productivity rates as well will be inevitable, in order to reduce labour demand.
- If the quantitative gaps are bridged, a qualitative mismatch of skills might still create frictions. If low-skilled do not increase their employability they might not match future skill needs, as labour demand will become more skill-intensive.
- Many international organisations already support long-term participation policies. Not only through 'more jobs' but also through 'better jobs'. The changing sectoral structure of the Western economies. asks for a transformation of our welfare systems from job security to income security. To enhance participation, striking the right balance between employment flexibility and income security is essential (the 'flexicurity' concept). Promoting 'decent work', fighting illegal labour and more (specific) education are other important policy elements.
- Active labour market policies can help to increase participation, but should be evaluated for effectiveness and effectivity more often.
- Evaluations of active labour market policies (ALMP) aimed at increasing female and elderly participation are generally more conclusive than evaluations of policies aimed at increasing labour force participation of the unemployed. Because of the heterogeneous character of the latter, tailor-made approaches tend to be more effective for this group than general training programs or general wage subsidies. Regular evaluations of policy programs in terms of effectiveness and efficiency would improve their usefulness.
- Evaluations of policies aimed at increasing female and elderly participation are generally more conclusive than evaluations of policies aimed at increasing the labour force participation of the unemployed. Because of the heterogeneous character of the latter, general measures are often less effective than tailor-made approaches.
- Modern labour markets institutions incorporate a life-cycle approach, and allow modern labour relations to fulfil the demand for different combinations of family, life and labour market work. Empirical literature stresses also the importance of child care availability, financial institutions that 'make participation pay'.
- Modern labour relations (like part-time work, fixed term contracts, temporary agency work and self-employment) are becoming more common. They are a central requisite for high labour force participation in a modern economy in which both men and women want to combine family life and labour market work. Scandinavian & Anglo-Saxon countries have

many voluntary tempworkers. Apparently some part of the higher participation of these countries is connected to their labour markets providing 'good quality' temporary jobs.

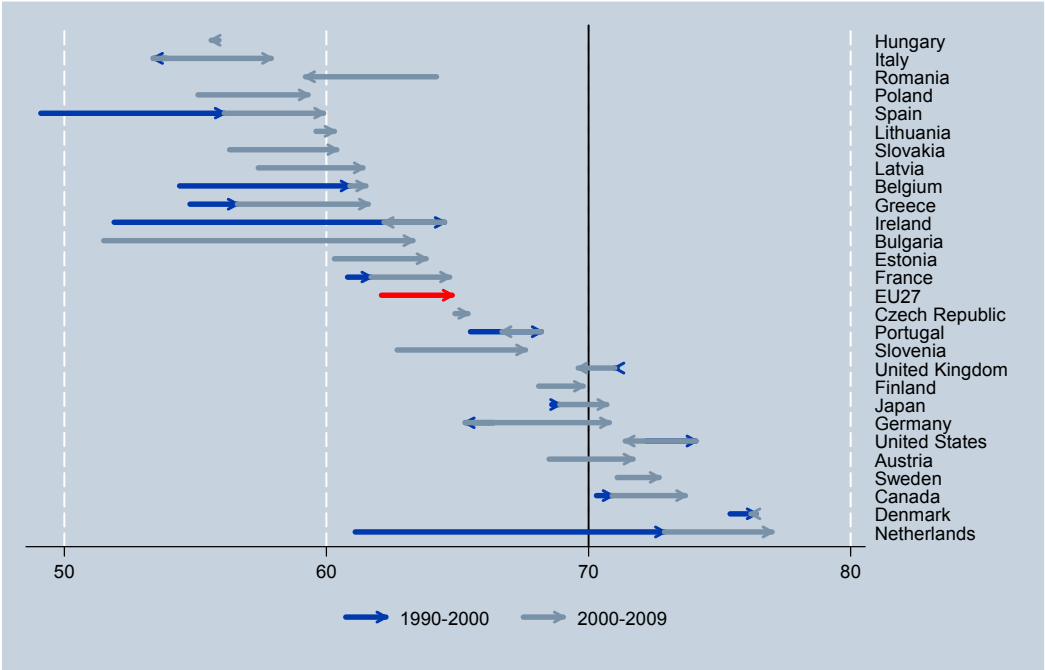
- In the last decade part-time work was the most important driver of participation, especially for women. Temporary agency work may play an increasing role as intermediate employment form and drive labour force participation by mobilising long-term unemployed and inactive members of the workforce ('stepping-stone-function').
- An important but in many countries unexploited potential as driver of participation is the flexibilisation of the standard employment relationship. Implantation of flexible elements into the open-ended full-time contract could be new element to what is normally regarded as 'flexicurity'.

The EU Lisbon targets

The European Union's 2010 Lisbon employment targets, originally agreed upon in 2000 by the then fifteen Member States, are all affected by the current recession in an important way. Just as some targets were about to be realized, the economic downturn washed away this possibility. Put simply, none of the Lisbon targets will be met in 2010. The average European employment rate will remain below 70%, while average employment for women will remain below 60% and for elderly below 50%. Unemployment will not only be higher than the target of 4%, it will actually be 2-3 times higher.

Looking on a country level, many countries had the Lisbon participation targets in sight, until the crisis blocked their path. The unemployment target was only realistic for a few countries (NL, Denmark, Austria, Slovenia, Czech Republic) until the summer of 2008. Countries that were unlikely to meet Lisbon targets in 2010 *before* the impact of the crisis are certainly not going to the meet targets. But forecasts are such that all countries that were getting close will not be able to meet those targets in the short run.

Employment in the EU27 increased only 3 percentage points in the last decade

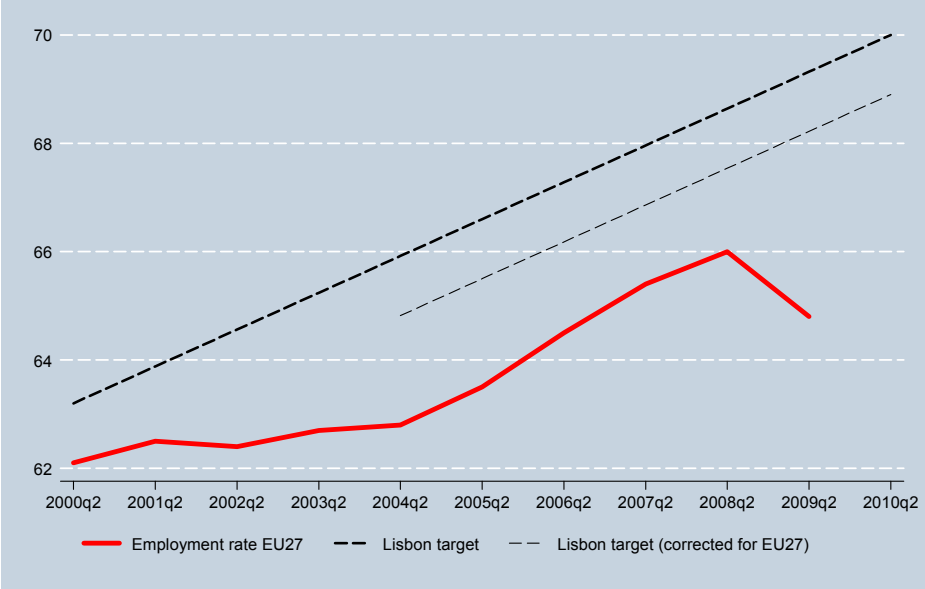


Source: Eurostat LFS (lfsq_ergan,2009); OECD LFS (2009). US/Can/Japan data are from 2008.
The dark blue arrows show the development during the last ten years of the 20th century (1990-2000). The light arrows show the development in the first eight years of the current century (2000-2009). The red arrow is the EU-27 average.

Europe has shown a steady rise in employment participation since 2000, but has remained below the Lisbon target of 70%. In 2008, the average EU-27 employment rate was 66%. Then the economic crisis kicked in and trends reversed. Halfway 2009 only five EU countries met the overall 70% employment target: the Netherlands, Denmark, Sweden, Austria, and Germany. Estonia, Latvia and Ireland were close to the target in 2008, but all were severely hit by the crisis.

Most Eastern European countries are below average. In Romania and Hungary participation levels have actually decreased since 2000. The figure below shows how the road to Lisbon of the EU-27 (regarding the overall employment target) was blocked by the impact of the crisis.

Road to Lisbon employment target blocked by crisis

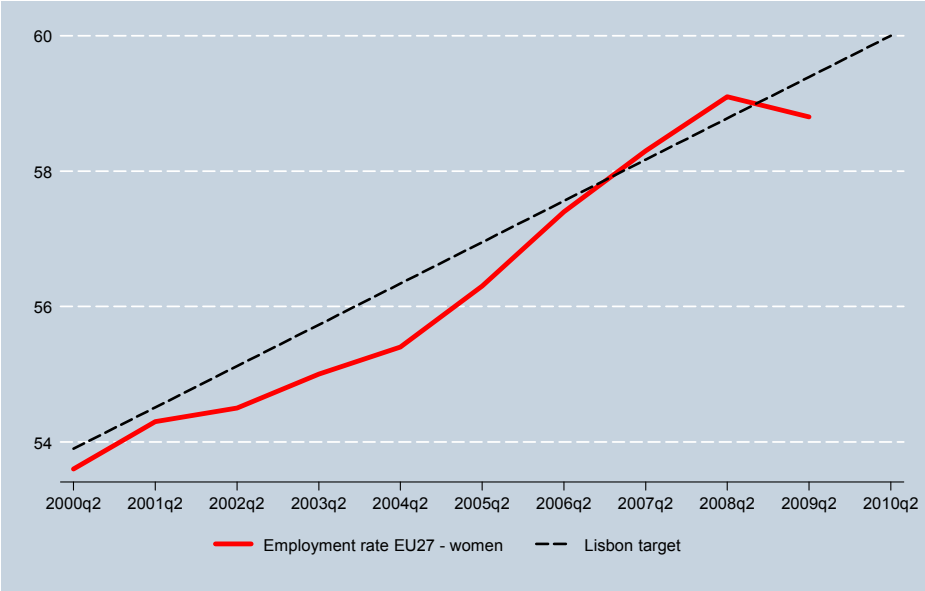


Source: Eurostat LFS (lfsq_ergan, 2009); OECD LFS (2009).

Although the participation rise since 2004 did not really bring the original 70%-target in clear sight already, the movement is clearly in the wrong direction since 2008q2. Even if we would allow a correction because the new member states faced a lower employment than the EU15 for which the target was originally formulated, the crisis impact rendered it out of reach.

The female employment target seemed realistic for some time. The figure below however shows how the road to Lisbon was blocked by the impact of the crisis. Even though women work in sectors where the damage was less than in male-dominated sectors, since the summer of 2008 the female employment trend goes in the wrong direction.
Denmark, the Netherlands, Sweden, and Finland all have female participation rates more than 10 percentage points above the target, but they do not compensate for other EU countries that still lag behind, such as Italy, Greece and Hungary.

Women participation's road to Lisbon blocked by the 2008-2009 economic crisis

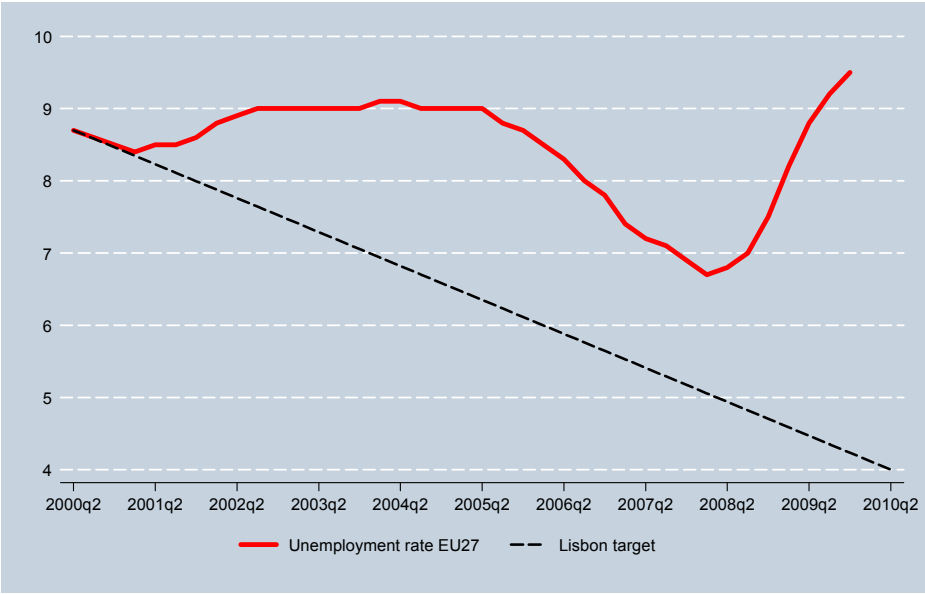


Source: Eurostat LFS (lfsq_ergan, 2009).

Also the employment target for the elderly (people aged 55-64) seemed realistic before the recession. However, in 2009 the average EU employment rate was only 46%, four percentage points short. Portugal, the Netherlands, Germany, and the Anglo-Saxon and Scandinavian countries are well above average, but in Eastern, Central and Southern Europe older people are less often employed. The positive side of the story is that the long-run trend is still upward, in almost every country.

The unemployment target of the Lisbon agenda was even more ambitious than other targets. In reality, the road to Lisbon has never been travelled, as the figure below demonstrates.

Unemployment target has never been in sight



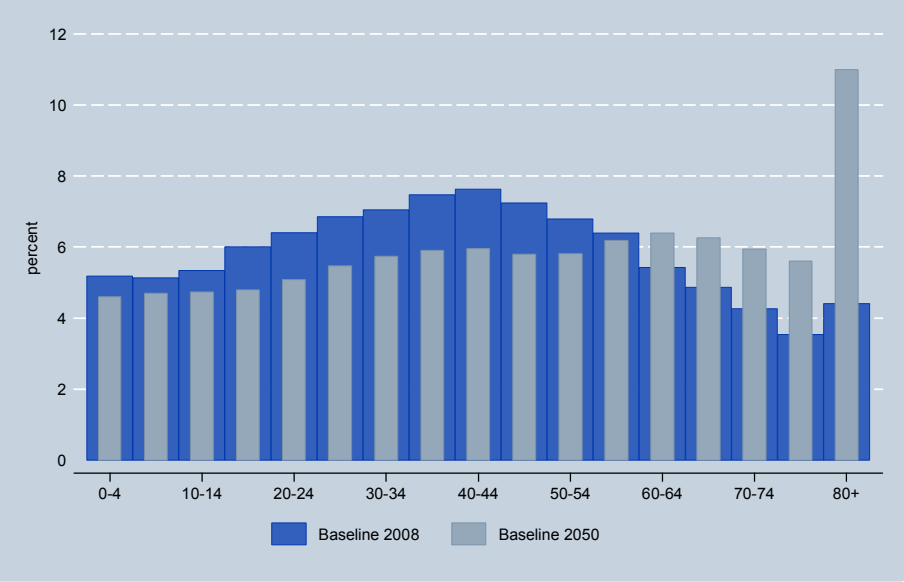
Source: Eurostat LFS (une_rt_q, 2010).

Since 2000 it took till the prosperous years of 2006-2007 -after the accession of Eastern European countries- before unemployment shortly dipped below 7%. But taking into account the crisis in 2009 it is on a unique 9.5% and expected to rise even above 10%.

Demand and supply in the future labour market

Although the current labour market is characterised by high unemployment in many countries, in the long run a tight labour market will prevail. The post-Second World War babyboom will cause a structural ageing of our society, which lowers potential supply of labour, relative to potential demand.

Age distribution of the EU-27 population will shift to the right (between 2008 and 2050)



Source: SEO calculations based on Eurostat (EUROPOP 2008).

The above figure shows how in the coming decades the bulk of the population -which is now in the middle- will shift to the right during the coming decades. The share of people in the working age (15-64) will become smaller, the share of elderly (65 years and over) will rise and the share of 'older elderly' (aged 80+) will more than double.[1] As most elderly do not work anymore, ageing will bring down the potential labour supply. A lower supply confronted with a constant demand leads –all else equal- to what we have called a *potential employment gap*. It is not literally a 'gap', because over the course of time the economic system will inherently try to restore equilibrium. Some economic parameters (that we assumed constant, for the sake of argument) will have to adjust in order to close this potential gap. The concept of potential employment gap hereby serves as a quantitative measure of tension, it shows how much the economic parameters have to adjust.

In our previous publication *Mind the Gap* we used the assumption of a constant demand, which is a rather strong assumption. In the current report we use a more general assumption. However,

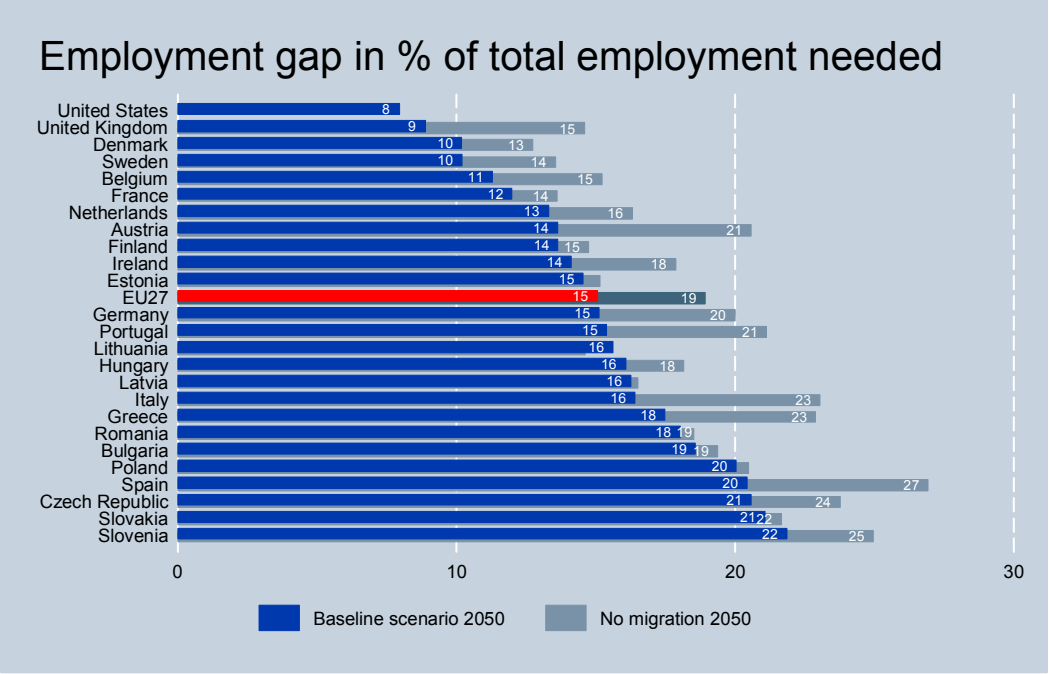
[1] The figure shows that in 2050 around 11% of our population will have an age of 80 years or higher. The share of people between 15-64 will have fallen from 67.3% to 57.1%. The a calculation is based on Eurostat's EUROPOP2008 projections.

first present the results of the old calculation, using the latest Eurostat population projections. By assuming a constant total labour demand of 220 million, the potential labour supply of 194 million would fall 11.6% short of demand in 2050. In a no migration scenario the potential employment gap will rise to 27.4% of demand.

Old calculation method applied on latest projections

	Total supply (mln)	Total demand (*mln*)	Gap in # persons (*mln*)	Gap as % of total demand	Employment rate needed to close gap
Baseline (old)	194	220	25.6	11.6%	74.7%
No migration (old)	160	220	60.3	27.4%	90.9%

In the old projections the average EU population size in 2010 was similar to the population size in 2005, which allowed the assumption of constant total demand. The new projections show more volatility, and in many countries the total demand for labour will be affected by changes in the total population (apart from the ageing effect). Therefore we now only assume a constant labour demand *per capita*. This implies that labour demand is allowed to vary proportionally to the population size, as long as (real) labour productivity is assumed constant. In fact, labour demand per capita will remain constant as long as product demand (GDP/capita) growth in the same pace as real labour productivity. Population is expected to change according to the Eurostat baseline projection. In this scenario, labour supply is calculated to fall 15% short of labour supply in the year 2050 (see table below).[2] In absolute numbers that is a potential employment gap of 35 million people. A purely hypothetical 'no migration' scenario underlines the important role of labour migration in bridging this potential gap. If no migration would take place from employees currently outside the EU the potential gap would be a lot wider, that is 19%.



Source: SEO calculations based on Eurostat (EUROPOP 2008, lfsq_ergan).

[2] The potential employment gap is larger than it would be if the old calculation method was used, because total demand is higher as the result of an average 4% population growth between 2010 and 2050.

Potential employment gap in the EU27 in 2050, in absolute and relative terms

	Total supply (mln)	Total demand (*mln*)	Gap in # persons (*mln*)	Gap as % of total demand	Employment rate needed to close gap
Baseline	**194**	**229**	**34.5**	**15.1%**	**77.7%**
No migration	**160**	**197**	**37.3**	**18.9%**	**81.4%**

In order to overcome this 'potential employment gap' the main options are:

- Increase employment participation (beyond the current Lisbon target).
- Increase labour productivity (in real terms, not just nominal productivity).
- Decrease local demand of goods & services (i.e. increase imports).
- Allow labour migration, as long as it facilitates the match of labour demand and supply (it then is beneficial for both the employees and the host country).

In the baseline projection the potential employment gap could be bridged with an *average* EU employment rate of 78% in 2050. That is 15 percentage points above the 2009 average, and 8 percentage points above the Lisbon target. Considering the participation increase in the last decade (nearly 3 percentage points) this challenge might be realistic. The optimal solution however differs per country, the table below shows that a new employment participation target of 80% rate will not be a sufficient solution for every country.

How far can each country get if it reaches 80% employment?

	Employment rate 2008	target if employment rate is to solve gap in 2050	new reference 2050	is that enough to 'close the gap'?	remaining gap (%-points)
Austria	72.3	83.7	80	no	3.7
Belgium	62.0	69.9	80	yes	
Germany	70.3	82.8	80	no	2.8
Denmark	78.4	87.3	80	no	7.3
Spain	65.0	81.7	80	no	1.7
Finland	72.3	83.7	80	no	3.7
France	65.2	74.1	80	yes	
Greece	62.2	75.4	80	yes	
Ireland	68.1	79.3	80	yes	
Italy	59.2	70.8	80	yes	
Netherlands	77.2	89.1	80	no	9.1
Portugal	68.6	81.1	80	no	1.1
Sweden	74.8	83.3	80	no	3.3
UK	71.6	78.6	80	yes	
Czech Rep.	66.6	83.9	80	no	3.9
Estonia	69.8	81.7	80	no	1.7
Hungary	56.5	67.3	80	yes	
Lithuania	64.6	76.6	80	yes	
Latvia	69.5	83.0	80	no	3.0
Poland	58.9	73.7	80	yes	
Slovenia	68.3	87.4	80	no	7.4
Slovakia	61.7	78.2	80	yes	
Bulgaria	63.9	78.5	80	yes	
Romania	59.7	72.8	80	yes	
EU27	66.0	77.7	80	yes	

Source: SEO calculations based on Eurostat (EUROPOP 2008, lfsq_ergan).

In countries where employment rates are already well above average, we see the 'curse of the leaders': increasing participation from 70% to 80% is much easier than increasing participation from 80% to 90%. So, increasing (real) productivity rates as well will be inevitable, in order to reduce labour demand. Increasing imports over exports has negative monetary consequences, so it is not a sustainable long term strategy.
If the quantitative gaps are bridged, a qualitative mismatch of skills might still create frictions. The lessons that the recent crisis tells us is that important sectoral shifts can be expected. Employment in some sectors in the EU will disappear (manufacturing), while ageing will increase demand in other sectors (health, leisure). Many employees have to be reallocated to different sectors of the economy. If low-skilled do not increase their employability they might not match future skill needs, as labour demand will become more skill-intensive, on average.
This qualitative mismatch can be reduced by a more effective matching of the requested type of demand and type of supply. To achieve this there is no ready-made solution, huge differences exist between countries and between sectors. In some cases only some extra training is required, in some cases more focus on lifelong learning or a more activating welfare system is required. A shift in focus from 'job security' to 'employment security' seems inevitable in the future labour market.

International policies for driving participation

In Chapter 3 Professor Ton Wilthagen & Sonja Bekker discuss the policies that different international organizations pursue. Although all international organisations acknowledge that there is no-one-size-fits-all model for all countries, they do present general directions for the development of the labour market and the promotion of participation. They emphasize either a social rights and human conditions approach (CoE, ILO), a mixture of economic and social goals (EU, OECD) or a predominantly economic and financial perspective (IMF). This difference in approach also explains why some of the organisations place more emphasis on enhancing labour market participation ('more jobs') whereas others see the quality of participation in work as a core aspect ('better jobs').
The key messages of the policies are presented in the table below. It shows the major concerns of each International Organisation on a limited range of policy issues, namely quantitative employment targets (for the increase of labour participation), the quality of participation in work, and the preconditions for promoting labour market participation, including training of employees, social dialogue, tax systems and social security and labour law.

The target groups mentioned throughout this publication (women, elderly and unemployed) are often also mentioned in the policies of the respective international organisations. Concerning women the policies that drive participation often refer to a better combination of work & care (ILO, EU, OECD), demanding more gender equality (ILO, CoE, EU) and providing accessible and affordable child care facilities. Regarding the unemployed, active labour market policies are often recommended in order to bring people back to work (EU, OECD, CoE). For the elderly gradual transitions from work to retirement are suggested (OECD). Other vulnerable groups are migrants and handicapped persons (CoE, EU) and low skilled people. Also young people are seen as a vulnerable group, especially those who have difficulties in making the transition from school to work (EU).

Key messages from international organisations on labour market participation and its dimensions

	ILO	IMF	CoE	EU	OECD
Key target	Promotion of decent work	Support international monetary system in facilitating exchange of goods, services, and capital, thereby sustaining sound economic growth	Promotion of democratic principles, human rights, dignity and social cohesion	Full employment, quality & productivity at work, social and territorial cohesion	Create more and better jobs
Key methods	Decent work Agenda, setting and monitoring of standards	Surveillance, technical assistance, codes and consultations with member states	Development of standards, charters and indicators; recommendations	Policy guidelines, evaluations and recommendations. Role of law in employment and social security is relatively limited.	Policy guidelines and recommendations
Quantitative employment targets		Economic growth means more jobs		70% overall labour participation	More jobs, more people in employment.
Quality of work	Develop the quality of work as aspect of decent work		Stress participation, dignity, equity and autonomy in work	Exploit the synergies between quality at work, productivity and employment	
Preconditions					
Training	Provide training as aspect of decent work	Can be aspect of consultation with member states	Right to training is element of charter of rights	New skills for new jobs. Overall goal EU knowledge economy	Enhancing workers' skills
Social dialogue	Tripartite social dialogue is key		Participation in decision-making processes is a component of social cohesion	Social dialogue is precondition at all levels, especially in meeting adaptability targets (flexicurity).	Partners to government in improving skills, only if this is part of the national practice
Tax system and social security	Social security is major aspect of decent work	Broaden the tax base, avoid heavy tax wedges on labour income, reduce employment benefits	Social security entitlements are important for social cohesion	Review the incentives and disincentives, but secure adequate levels of social protection	Develop sound macroeconomic policies; remove obstacles to participation and job creation; provide adequate security to workers
Labour law	Decent work requires rights for workers	Reform rigid unemployment protection systems	Create and respect various rights for workers and non-workers	Develop flexible and reliable contractual arrangements	Remove obstacles to participation and job creation

'Flexicurity' is an important concept in the EU strategy. The European Commission has reached consensus that flexicurity policies can be designed and implemented across four policy components, but will not be effective without social dialogue [3]:

[3] EC (2007), Towards Common Principles of Flexicurity, COM(2007) 359 final.

- Flexible and reliable contractual arrangements through modern labour laws, collective agreements and work organisation;
- Comprehensive lifelong learning strategies to ensure the continual adaptability and employability of workers;
- Effective active labour market policies that help people cope with rapid change, reduce unemployment spells and ease transitions to new jobs;
- Modern social security systems that provide adequate income support, encourage employment and facilitate labour market mobility.

Although these international organisations advocate a structural and long-term perspective, all of them are currently very active in responding to the current financial and employment crisis. It remains to be seen to what extent this will eventually impact their key policies for labour market participation and employment in a more fundamental way. The European Commission e.g. has already stated that it considers its flexicurity policy no less relevant in the current times of crisis and also beyond the crisis.

Policy solutions in the empirical literature

Chapter 4 presents an elaborate meta-study of drivers of participation, focusing on what the scientific literature tells us about labour market policy effects that have been empirically tested. Although experiences from the past are no guarantee for the future, they can give valuable insights into how to model future policy. Three target groups are distinguished: women, the elderly and the (long term) unemployed. For each target group different policy instrument have been studied.

Evaluations of active labour market policies (ALMP) aimed at increasing female and elderly participation are generally more conclusive than evaluations of policies aimed at increasing labour force participation of the unemployed. Because of the heterogeneous character of the latter, tailor-made approaches tend to be more effective for this group than general training programs or general wage subsidies. Regular evaluations of policy programs in terms of effectiveness and efficiency would improve their usefulness.

Female participation is strongly influenced by the opportunity to balance work and family responsibilities. For this reason, a number of policy instruments who improve this balance have been studied in different countries. Two common and effective instruments are part-time and temporary agency work. Creating more flexible contractual arrangements is another way to unite work and family needs (see also Günther Schmid's contribution in Chapter 6).
An institutional setting that promotes participation is such that it *'makes participation pay'*. More equal tax treatment of second earners' income relative to single earners' income can be an effective way to create a better balance. It has been proved (for seventeen OECD countries) that this will increase female participation. Incentives concerning child care and (paid) parental leave have mixed effects in different countries. A reduction of childcare costs would stimulate labour force participation in the US and Canada. For other countries (the Netherlands, Italy, UK, Germany and France) childcare availability (in the right place and for the right hours) is more important than price.

The effect of parental leave on labour participation depends on the institutional design. Re-entrance after (paid) parental leave is higher in social democratic welfare states, liberal and conservative welfare states have less favourable arrangements for parental leave (e.g. a guaranteed return to the same job). However, the re-entrance probability is also dependent of the length of the spell: too long spells lower returns.

Stimulating the participation of older workers is becoming more and more important as in many countries the population is ageing and old age benefits are financed through a pay-as-you-go system. People can be encouraged to work longer by putting the financial incentives right. Once again, *'make participation pay'*. Raising the statutory retirement age, introducing an actuarially neutral social security system, linking pension contribution to pension benefits (defined contribution) are financial instruments which have been evaluated and proved to increase the participation of older workers. Early retirement schemes are important financial incentives for leaving the labour market at an early age. Reforms have had positive effects on the participation rate of older workers, although abolishment would be most effective, of course. Lump-sum bonuses have been studied in a Dutch survey and showed that people who are planning to retire early (at the age of 55) are less tempted by the bonus than people who are planning to retire later (at the age of 56-65). The effectiveness of this financial incentive seemed to be weakened by the presence of private funds, savings specifically intended for early retirement.
Although most financial incentives are effective, they are not sufficient to promote employment opportunities of older workers by itself. In addition to pensions and early retirement systems, (too generous) unemployment, disability and other welfare benefits are used as alternative pathways to an early exit from the labour market. Restricting access to these alternatives and simultaneously reforming the pension system is needed to prevent early retirement.
In general, many welfare systems still contain financial incentives that encourage people to leave the work force. These systems should be reformed in order to make participation pay.

Active labour market policies aimed at reintegrating the (long term) unemployed have mixed outcomes: among different programs and also between countries. Most evaluations of monitoring and sanctioning programs show positive effects on the exit rate and duration of unemployment. They would even be more effective when the two are combined. Financial bonuses also reduce the duration of unemployment, but they might have negative side-effects like changing behaviour in order to become eligible for the bonus. Job search assistance, training programs and wage subsidies have mixed effects. Training programs are used everywhere in Europe, but positive effects are only found in half of the evaluations. Besides, classroom and on-the-job training programs have better outcomes in the medium than in the short run. Apparently tailor-made approaches prove more effective than general education measures. Wage subsidies are often found to be positive, but most studies are incomplete. They fail to evaluate potential substitution and long-term effects. Subsidized work in the public sector does not seem to have any positive effects in the long run.
Temporary agency work is often a 'stepping-stone' for the unemployed towards more regular work, at least in countries with a more mature market for temporary agency work (Germany, Italy, UK, the Netherlands, Belgium & Australia). The benefits for society are twofold: temporary agency workers generally have shorter unemployment spells, and their gained job experience creates better opportunities to find permanent work.

The overall conclusion on active labour market policies is that their effectiveness highly depends on the targeting level. General training programs or general wage subsidies might help to increase participation, but they will not do so if they are not specific enough.

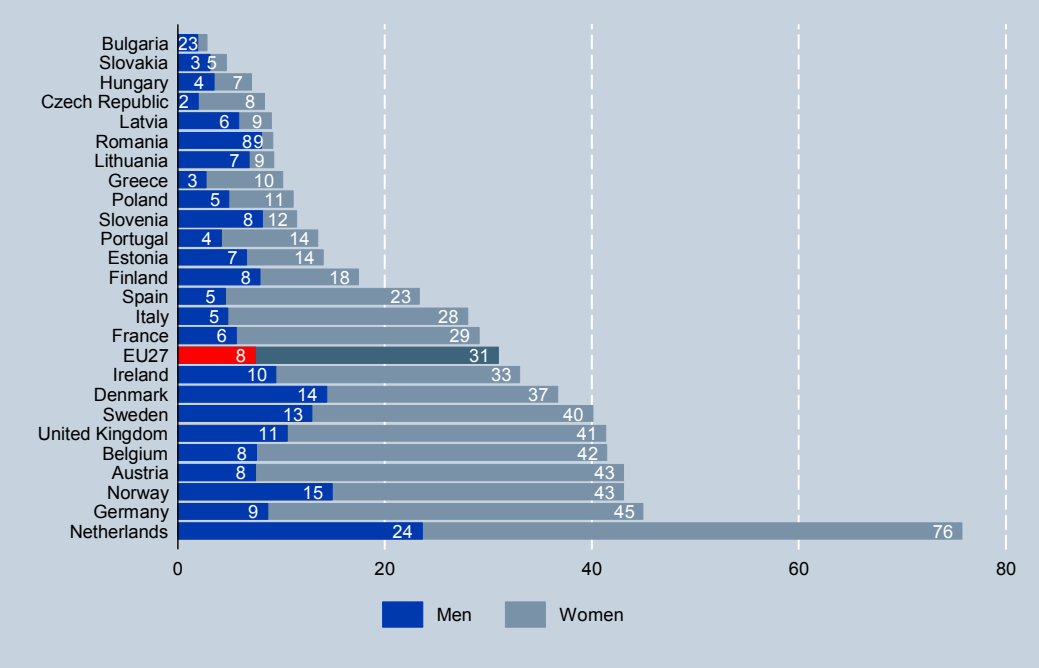
Modern labour relations

Modern labour relations have become more prominent in the last two decades, although the traditional labour contract (fulltime open-ended) is still dominant. However, differences between countries -and sometimes between sex and age groups- are immense, as are the differences in the use of distinct forms of modern labour relations. In Chapter 5 we focus on part-time work, fixed-term contracts, temporary agency work and self-employment.

The odd one out is self-employment. According to official Eurostat statistics 10% of employment in the EU27 is in the form of self-employment. In Greece, Romania & Italy the share is somewhat higher but differences between countries are not immense. Most strikingly: the importance of self-employment did not increase during the last decades, the share of self-employed has always been between 9.8% and 10.1%

Part-time work, on the other hand, has become very popular in some countries. It has important socio-cultural explanations, as part-time work typically suits women who are making a deliberate choice for balancing work and family life. For women in the Netherlands part-time work is now the dominant type of labour, in other Northwest-European countries part-time work is also common among women, but in the rest of Europe it is still a marginal phenomenon.

Part-time work is a female phenomenon



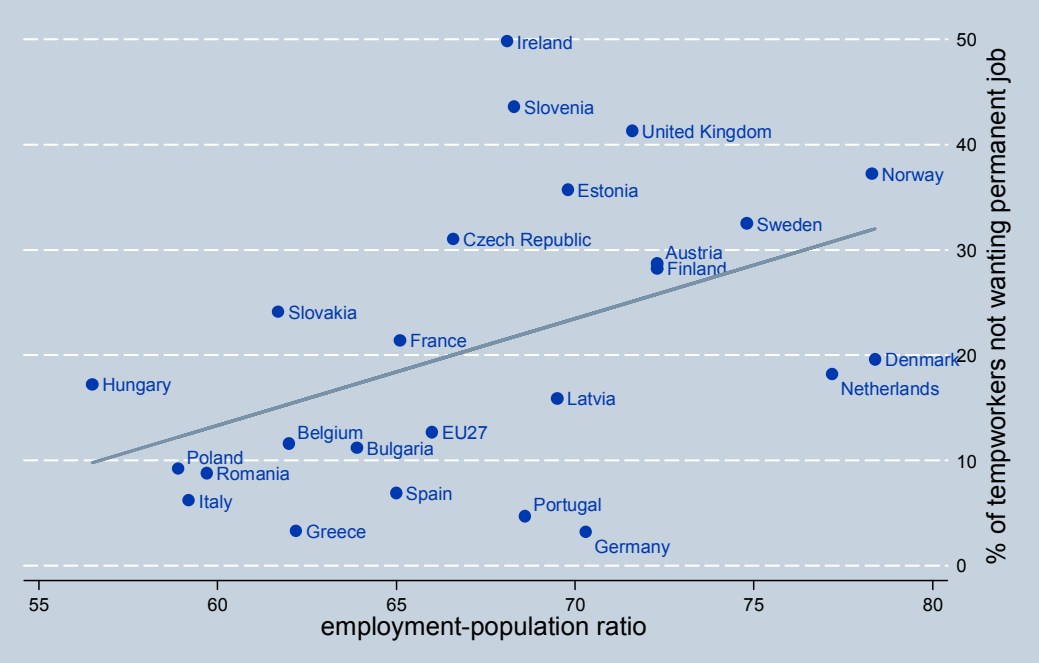
Source: Eurostat LFS (lfsq_eppga, 2009).

In many countries temporary work (in the definition of a direct fixed term contract between employer and employee) has been an important component of employment growth in the last one or two decades (Spain, Poland). But less general than part-time work, more clustered among specific groups (young people) and sectors (manufacturing, in some countries health care and construction).

But fixed-term contracts are not the only relevant form of work included in the 'temporary work' definition. In North-western Europe temporary work is often characterized by a specific triangular labour relation, involving a temporary work agency, user company and employee. Compared to fixed-term contracts, temporary agency workers spend less time in unemployment, and in the countries with a mature agency work market it often acts as a 'stepping stone' to permanent work for the unemployed.

A correlation exists between employment participation and the voluntariness of tempwork: the countries with higher participation have less people working involuntary in a fixed term contract. Or, to formulate it more positively: the higher participation comes hand in hand with more voluntary tempworkers. Of course this statistical relation is not the same as a causal relation, but at least does not contradict the hypothesis that is analysed in more detail in Chapter 6: apparently some part of the higher participation of some (Scandinavian & Anglo-Saxon) countries might be connected to their labour markets providing 'good quality' temporary jobs.

Voluntary tempwork is correlated with higher participation



Source: Eurostat LFS (lfsq_etgar, 2008; lfsq_ergan,2009).

Non-standard employment and labour force participation

In Chapter 6 Professor Günther Schmid explores the determinants that might explain the development of non-standard employment in EU from 1998 to 2008, and discusses the policy consequences. He reaches the following conclusions (in brief):

(1) The main result regarding the nexus of non-standard employment and labour force participation is quickly told: it is part-time work – especially in its open-ended form of dependent work – which drives labour force participation. This holds especially (and obviously) true for women but also (and less obviously) for men. The overall driving capacity of temporary work, i.e. the employment relationship in fixed-term contracts, so far was weak. However, it might become a forceful and welcome driver if more good quality of jobs or stepping-stone-functions are provided, but it may also remain driven itself mainly by cost-cutting considerations of employers. Self-employment is ambiguously related to labour force participation since– in the long-term – countervailing tendencies let expect rather stagnation than an extension of this employment form.

(2) The second important result is a deeper understanding of the dynamics of non-standard employment. The standard employment relationship defined in its traditional and narrow way (fulltime, open ended) declines and 'non-standard' forms increase. In Europe the employment rate in part-time, fixed-term and self-employment (overlaps controlled) rose from 17.5 percent (1998) to 22.3 percent (2008). The huge differences between the EU member states show a clear pattern: the 'social-democratic' employment regimes (Netherlands included) are at the top, but non-standard employment rates are also high in family centred 'conservative' and in 'liberal' regimes (for example Germany and UK). Apart from Poland, all East-European new member states are 'underdeveloped' in terms of non-standard employment.
Whereas temporary work is mainly driven by cost competition and new forms of work organisation, the main underlying causal factors for part-time work are women's strive for economic independence and the transformation of formerly unpaid family work into market work. Thus, globalisation, information technologies and 'feminisation' of the labour markets are the megatrends standing behind the increase of non-standard employment. Furthermore, the positive relationships of non-standard employment with labour force participation and GDP growth indicates that an increasing variety of employment relationship may well be one of the preconditions for a sustainable economic dynamics and prosperity.

(3) The third important result relates to the differentiated role of the three components of non-standard employment.
Part-time work has clearly the strongest weight in this 'partnership'. As it is (still) taken up mainly by women, this form of non-standard employment reflects above all restrictions in labour supply due to family obligations. And as many tasks, especially caring tasks, cannot or should not be transformed into market transactions, flexibility of working time will further be required if gender equality and work-life balance are highly estimated. Thus, non-marginal part-time employment in the form of open-ended part-time contracts (say in the range of 20 to 35 hours a week) has become normal in many cases.

For temporary work, we observed a relatively slow upward movement, if not a stagnating trend. Although the Eurostat database did not allow a distinction of different forms of temporary work, other sources make clear that temporary agency work may play an increasing role as intermediate employment form and drive labour force participation by mobilising long-term unemployed and inactive members of the workforce (stepping-stone function).
Regarding self-employment, first attention should be drawn to the overall stagnating or even declining trend of this non-standard form of employment. This result sharply contrasts optimistic expectations of many policy makers and some researchers who sometimes see in self-employment a panacea for job creation or increasing labour force participation. However, it became also clear that this component of non-standard employment deserves much deeper research, all the more because the phenomenon of fake self-employment erodes the strict borderlines between dependent work and genuine self-employment.

(4) The fourth result is the unequal distribution of non-standard employment among socio-economic groups. This observation, although not new, is all the more relevant since the usual higher risks related to non-standard employment in terms of income, unemployment, social security in old age and partly even in terms of health are sources of new inequalities if welfare states are not able to adjust their institutions to this new dynamics. The other side of the coin is the extremely poor level of labour market participation among the low-skilled which hints to the need of substantive efforts especially in education policy to overcome this deficit. As far as education is (or even should be) related to 'on-the-job' training, temporary work (including temporary agency work) might provide important experience.

(5) These observations were reason to ponder a bit more about the underlying causes that erode the traditional standard employment relationship. Looking at the distribution of non-standard employment by industrial branches, the assumption of a continuous transformation of unpaid household work into market transaction driving especially part-time work and increasing female labour force participation was confirmed. This process encompasses the whole economy but concentrates on a few and in part strongly growing sectors (business and health services).

(6) Labour market institutions also play a role. Taxes and social security contributions provide economic incentives both for the labour demand and supply side to search for employment forms with the highest returns or the lowest costs. High income taxes or social security contributions certainly do not encourage own account work except the respective people circumvent those rules by choosing informal ('black work") or even illegal forms of employment. On the slip side of 'going informal', however, we find lack of social security in case of illness or old age as well as hidden forms of exploitation or even Mafia-kind employment relationships.[4]

(7) Unequal taxation of male and female income favours marginal forms of part-time with high risks related to sustainable labour market careers and social security in old age. It also favours the traditional role division between men and women. The same holds true for non-targeted forms of wage subsidies in form of in-work-benefits, that allow combining wage and transfer income ad ultimo but keeping people, especially women, in low wage jobs without promotion opportunities. Comparative research shows that lower earnings differentials between men and women in

[4] The Nobel Prize winning economist Amartya Sen (2001, chapter 11) saw in the Mafia even a functional equivalent to formalized structures and entitlements to social security.

developed welfare states with high labour force participation are probably to be attributed to their more egalitarian wage structures rather than to their family policies. Cross-national research also indicates that in contrast to extended maternal leaves, expansion of public sector employment and the provision of services such as subsidized day care are suitable instruments to increase labour force participation without doing harm to economic outcomes for women (Jaumotte 2003, Mandel/ Semyonov 2005).

(8) High employment protection drives fixed-term employment, especially for men. Fixed-term contracts allow employers to circumvent dismissal protection or to combine external flexibility (hire and fire) with internal security for the core labour force (employment protection) with respective loyalty and – may be – higher productivity. Both options lead to a segmentation of the labour market in so called 'insiders' with open-ended contracts and 'outsiders' with fixed-term contracts. Employment protection regulation, therefore, would have to be developed in a way that both flexibility and security complement each other in a functional way without enhancing the inbuilt tendencies of labour market segmentation.

(9) Cultural factors also play a role in choosing non-standard employment relationship. A few sophisticated studies provide evidence that women of 'conservative' welfare regimes are still not very supportive to the transformation of care work into market transactions. They choose part-time work mainly for the reason to combine unpaid family work with some additional market income. With respect to temporary work, the most important preferential reason is to combine education with gainful work or to accumulate vocational experiences of various kinds in order to maintain or to improve employability. Due to their risk-pooling capacity, temporary work agencies might play an important role for optimal job matching and recruitment, especially for school leavers and young adults. In countries with high levels of fixed term contracts also for mature adults (like Spain or recently Poland), however, having no other choice is the main reason, which means lack of jobs with open ended contracts. Such countries have to come to a more balanced regulation of 'flexicurity', not least for the sake of higher productivity enhanced through the 'psychological contract' fostered by open-ended contracts.

Good studies are missing related to self-employment. However, we found a 'best practice case' of research in Sweden which produced in part thrilling results that probably can be transposed to other comparable countries. Most people in dependent work who decide to become self-employed choose a combination of dependent part-time employment and part-time self-employment, to test under the 'safety umbrella' of dependent work whether own account work might become an alternative income source at the end. Many become fully self-employed at the end, the majority however returns to dependent work or keeps the combinatory status. Unfortunately, a conscious employment policy that systematically supports or encourages such trial and error processes is not yet in sight. Nevertheless, as evaluation studies in the meantime show, employment or labour force participation can effectively be promoted by this way.[5]

(10) Last, but not least, our results hint to a great and in many countries unexploited potential as functional equivalent to non-standard employment: the flexibilisation of the standard employment relationship. The implantation of flexible elements into the open-ended full-time contract can take various forms: agreements on regulated time-offs (sabbaticals) for various

[5] For Germany, e.g., see Baumgartner/ Caliendo (2007).

reasons such as child care, care for the frail elderly or disabled, educational leaves, or recreation. Such agreements provide at the same time the relative security of a formal employment relationship as well as the flexibility of working time according to the needs of the life course.

Introduction of IDEAL

In most developed countries the use of non-standard, more flexible forms of labour has increased during the last one or two decades. But at the same time very large differences exist between countries in the scale and forms of modern labour relations. The enlargement of the EU with the Eastern & Central-European countries increased heterogeneity even more. Differences in regulations & restrictions, the workforce and the economic situation are considered to be the main causes for these differences. The Netherlands are a special case when looking at flexible labour. Not only are modern forms of labour commonly used in the Netherlands (part-time work can not be called 'non-standard' anymore), also the role of temporary agency work is much larger than in most other countries. For Randstad Holding, a major player in the Dutch, European and even world market for temporary work, it is important to learn more about the use of flexible forms of labour, the driving forces behind it and differences between countries in labour market institutions and the relationship with flexible labour.

Although much statistical information exists –by amongst others OECD, Eurostat, CIETT, ILO, national Statistical Offices– detailed internationally comparable statistics (both time series and cross section data) on flex-work are scarce. A further problem with these statistics is that definitions differ strongly between countries and that they are adjusted frequently. A third problem is that the distinguished countries, the frequency and the topics covered vary between sources. For Randstad Holding these were reasons to start a project in September 2000 with the aim of collecting labour market data in general and data on flexible forms of labour in particular.

The project resulted in the **I**nternational **D**atabase of **E**mployment and **A**daptable **Labour** (IDEAL). This database is created by SEO Economic Research in co-operation with and commissioned by Randstad Holding. The aim of IDEAL is to bring together a large number of *comparable* international statistics on employment, modern labour relations and agency work. In May 2004 this resulted in the first publication of the Randstad Jobs Report, in which an international outlook was presented based mainly on data recent to the year 2002. In 2007 an update followed, with a special focus on labour migration. In this third report we present another update of the database, with new countries and more recent figures. A special focuses this year is on the theme 'drivers of participation'.

Data comparability issues

On some topics we will also be able to compare figures of the countries with averages for the European Union as a whole (preferably EU-27 and EU-15). The main focus of IDEAL is on international comparability between statistics. For that reason the countries in our database are separated into three categories, representing three different levels of comparability. Our first source are Labour Force Survey (LFS) data from Eurostat: they are to a large degree based on comparable definitions, and also published frequently and on relatively short term. Of course, Eurostat focuses mainly on the European countries, so for other countries we also look for similar data at OECD. Although in the use of definitions this source is more or less comparable with Eurostat, their publication horizon is much longer. Most statistics are annual and published in the second half of the following year, so they might be less up-to-date sometimes. If neither

Eurostat or OECD can provide information, tertiary sources are considered, but at an enormous cost of comparability loss. Tertiary sources (like ILO) are collected from very different sources, mostly infrequent and therefore not very recent. Differences in national definitions make these statistics only suited for within-country purposes, not for between-country comparisons. We therefore use these tertiary sources only if we think they contain valuable information that is comparable with the other sources. Statistics are presented in nearly all tables and figures for the following countries:

- Austria (AT)
- Belgium (BE)
- Germany (DE)
- Denmark (DK)
- Spain (ES)
- Finland (FI)
- France (FR)
- Greece (GR)
- Ireland (IR)
- Italy (IT)
- Luxembourg (LU)
- Netherlands (NL)
- Portugal (PT)
- Sweden (SE)
- United Kingdom (UK)
- Cyprus (CY)
- Czech Republic (CZ)
- Estonia (EE)
- Hungary (HU)
- Lithuania (LT)
- Latvia (LV)
- Malta (MT)
- Poland (PL)
- Slovenia (SI)
- Slovakia (SV)
- Bulgaria (BG)
- Romania (RO)
- Norway (NO)
- Switzerland (CH)

Where available statistics are also presented for the following countries:

- Australia
- Canada (Can)
- Japan (JP)
- Mexico
- New Zealand
- Turkey (TR)
- United States (US)

Given the low quality of available statistics the following countries can only be included in tables incidentally:

- Andorra
- Angola
- Argentina
- Bahrain
- Brazil
- Chile
- China
- Croatia
- India
- Kuwait
- Malaysia
- Monaco
- Montenegro
- Mozambique
- Oman
- Qatar
- Serbia
- Singapore
- South Africa
- Sri Lanka
- Thailand
- United Arab Emirates
- Uruguay

1 The EU Lisbon targets: participation and unemployment

The European Heads of State and Government decided in Lisbon in 2000 to endorse a new strategic social goal to be attained by 2010: for the EU to "become the most competitive and dynamic knowledge based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion." Regaining 'full employment' is at the core of the new strategy. The European Council set out -as the key indicator of this success- that by 2010, the employment rate should rise to 70% for the European Union as a whole and to 60% for women. Among the elderly (aged 55-64) participation should be at least 50%. At the same time the EU average unemployment rate should be reduced to 4% or less. In the first Randstad Jobs Report (Berkhout & van Leeuwen, 2004) we showed that the participation targets might be met by the EU-15 on average in 2010, but that the unemployment target was too ambitious. In the second Report (Berkhout, Dustmann & Emmer, 2007) we concluded that the participation targets might be met by the enlarged EU-25 on average, but not by every country individually. In the current report we take a third look, taking into account three more years of data and two new member states as well. Finally, we have to conclude that none of the Lisbon targets will be achieved by 2010, by neither EU15, EU25 or EU27. Although most official statistics only run through 2009, given the economic impact of the recent financial crisis we do not believe that the European labour market situation will improve dramatically in the year 2010.

1.1 Population and potential labour force

In most of this publication we will present percentages, because these are easily comparable between countries. Absolute numbers of employed persons are not useful when we want to compare the degree of participation between countries, but they do give an impression of the size of the labour market in the country. In IDEAL, we have recorded the absolute values of the total population and the working age population with age 15-64 (the so called 'potential labour force'). These quantities are presented in Table 1 for EU and OECD-countries and in Table 2 for non-OECD countries.

With the EU expansions in 2004 and 2007 the total EU population increased with over 100 million people, living in Eastern Europe. The working age population increased by 70 million people, to a current total of 330 million. In most Western countries about two-thirds of the population is currently of the working age. In Chapter 2 we will show that in the next decades this share will decline. Apart from the Arab countries, the gender composition of the potential labour force is balanced.

Table 1 Total population in EU & OECD countries, 2008 (x1000)

	Total population	% 15-64	=	'Potential labour force'	% female
Austria	8,223	68%	=	5,580	50%
Belgium	10,690	66%	=	7,063	50%
Germany	81,391	66%	=	53,847	50%
Denmark	5,481	66%	=	3,595	50%
Spain	45,266	69%	=	31,210	49%
Finland	5,286	66%	=	3,513	50%
France	60,560	66%	=	39,681	51%
Greece	10,776	67%	=	7,228	50%
Ireland	4,422	68%	=	3,028	50%
Italy	59,294	66%	=	39,154	50%
Luxembourg	472	68%	=	323	51%
Netherlands	16,187	68%	=	10,970	50%
Portugal	10,619	67%	=	7,143	51%
Sweden	9,193	66%	=	6,041	49%
United Kingdom	60,254	66%	=	40,055	50%
Cyprus	756	69%	=	523	51%
Czech Republic	10,409	71%	=	7,406	50%
Estonia	1,337	68%	=	908	52%
Hungary	9,892	69%	=	6,794	51%
Lithuania	3,366	69%	=	2,316	52%
Latvia	2,271	69%	=	1,568	52%
Malta	411	70%	=	288	49%
Poland	37,121	71%	=	26,228	51%
Slovenia	2,026	70%	=	1,419	49%
Slovakia	5,394	72%	=	3,883	50%
Bulgaria	7,640	68%	=	5,187	50%
Romania	21,529	70%	=	15,044	50%
EU27	490,263	67%	=	329,994	50%
EU25	461,094	67%	=	309,763	50%
EU15	388,111	67%	=	258,430	50%
Australia	21,432	68%	=	14,474	50%
Canada	33,311	69%	=	23,151	50%
Japan	127,692	64%	=	82,300	50%
Mexico	106,683	65%	=	69,376	51%
New Zealand	4,269	67%	=	2,842	51%
Norway	3,490	90%	=	3,148	49%
Switzerland	7,647	68%	=	5,211	50%
Turkey	69,562	66%	=	45,731	50%
United States	304,060	67%	=	204,064	51%

Source: Eurostat (lfsi_act_a, 2009) OECD (ALFS, 2009).

Table 2 Total population non-OECD countries, 2008 (x1000)

	Total population	% 15-64	=	'Potential labour force'	% female
Andorra*	83	72%	=	60	48%
Angola*	12,531	54%	=	6,719	49%
Argentina*	40,482	63%	=	25,692	50%
Bahrain*	718	70%	=	502	42%
Brazil*	196,343	67%	=	131,097	50%
Chile*	16,454	68%	=	11,121	50%
China*	1,330,045	72%	=	956,533	49%
Croatia*	4,492	67%	=	3,020	50%
India*	1,147,996	63%	=	727,026	49%
Kuwait*	2,597	71%	=	1,832	36%
Malaysia*	25,274	63%	=	15,992	50%
Monaco*	33	61%	=	20	50%
Montenegro**	678	64%	=	431	50%
Mozambique*	21,285	53%	=	11,208	51%
Oman*	3,312	55%	=	1,806	42%
Qatar*	825	77%	=	633	29%
Serbia**	7,559	65%	=	4,907	50%
Singapore*	4,608	77%	=	3,527	51%
South Africa*	48,784	65%	=	31,947	50%
Sri Lanka*	21,129	68%	=	14,360	51%
Thailand*	65,493	70%	=	46,068	51%
United Arab Emirates*	4,621	79%	=	3,634	27%
Uruguay*	3,478	64%	=	2,227	50%

* estimates 2008; ** value 2007.
Source: CIA Factbook (2009); ILO (2008).

1.2 Participation

The 'potential labour force' from the above table is the starting point for calculation of the employment rate, one of the most important indicators used in labour market policy. The employment rate or employment-population ratio's are calculated by dividing the number of all people in employment (employees, self-employed, family workers) by the total number of people in the working age. Alternatively, one could describe the employment rate as '*the number of employed as a % of the potential labour force*'. Table 3 presents an overview of employment rates over the years, and Figure 1 reflects the employment situation in 2009 graphically.[6]

[6] To provide robust and recent time-series, the yearly numbers in this and the following chapters are represented by the second quarter average of that year.

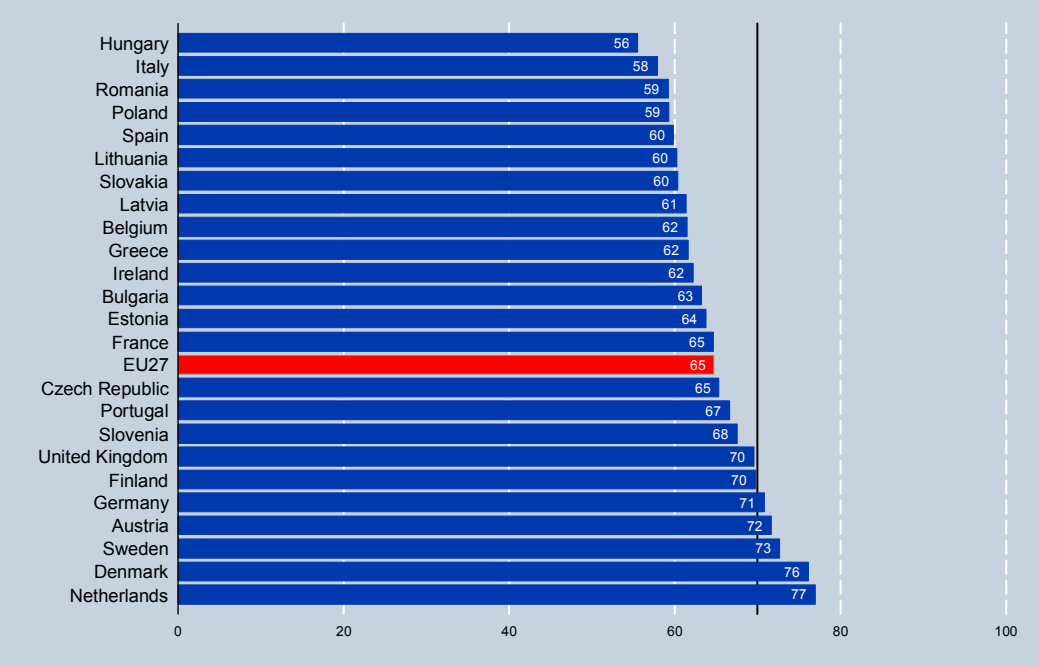
Table 3 Employment-population ratio's for persons aged 15-64

	1990	2000	2003	2004	2005	2006	2007	2008	2009
Austria	-	68.5	69.1	67.7	68.4	70.0	71.5	72.3	71.7
Belgium	54.4	60.9	59.3	60.5	61.0	60.4	61.6	62.0	61.5
Germany	66.4	65.3	64.9	64.3	65.8	67.4	69.1	70.3	70.8
Denmark	75.4	76.4	75.1	76.0	75.5	76.9	77.3	78.4	76.2
Spain	49.1	56.1	59.7	60.9	63.2	64.7	65.8	65.0	59.9
Finland	-	68.1	68.7	68.3	69.2	69.9	71.3	72.3	69.8
France	60.8	61.7	64.0	63.7	64.1	63.8	64.6	65.2	64.7
Greece	54.8	56.6	58.9	59.6	60.3	61.0	61.5	62.2	61.6
Ireland	51.9	64.5	65.1	65.5	67.1	68.1	68.9	68.1	62.2
Italy	53.9	53.4	56.1	57.7	57.8	58.9	58.9	59.2	57.9
Luxembourg	59.2	62.7	62.2	62.5	63.6	63.6	63.6	65.0	65.7
Netherlands	61.1	72.9	73.8	73.1	73.2	74.2	76.0	77.2	77.0
Portugal	65.5	68.2	68.2	68.0	67.6	68.1	67.6	68.6	66.7
Sweden	-	71.1	73.6	72.4	72.6	73.1	74.3	74.8	72.7
United Kingdom	71.1	71.0	71.4	71.5	71.5	71.4	71.2	71.6	69.6
Cyprus	-	65.4	69.2	69.4	68.7	69.5	71.2	71.1	70.2
Czech Republic	-	64.9	64.9	64.1	64.7	65.3	66.0	66.6	65.4
Estonia	-	60.3	62.3	62.9	64.9	68.8	69.7	69.8	63.8
Hungary	-	55.9	57.0	56.6	56.8	57.3	57.6	56.5	55.6
Lithuania	-	59.6	62.8	61.4	62.6	63.7	65.4	64.6	60.3
Latvia	-	57.4	61.7	62.2	63.0	65.5	67.6	69.5	61.4
Malta	-	54.5	54.6	53.4	53.6	53.6	55.2	55.2	54.9
Poland	-	55.1	51.4	51.4	52.2	53.9	56.8	58.9	59.3
Slovenia	-	62.7	62.5	65.6	66.0	67.1	68.3	68.3	67.6
Slovakia	-	56.3	57.9	56.7	57.4	59.3	60.4	61.7	60.4
Bulgaria	-	51.5	53.1	55.1	56.2	59.1	61.6	63.9	63.3
Romania	-	64.2	58.7	58.7	58.7	59.6	59.6	59.7	59.2
EU27	**-**	**62.1**	**62.7**	**62.8**	**63.5**	**64.4**	**65.4**	**66.0**	**64.8**
Switzerland	-	78.3	77.9	77.4	77.2	77.9	78.6	79.5	-
Norway	-	77.9	75.6	75.3	74.6	75.3	76.7	78.3	77.0
Turkey	54.5	48.8	45.8	46.1	45.9	47.1	47.2	47.4	44.7
Canada	70.3	70.9	72.2	72.5	72.5	72.9	73.6	73.7	-
Japan	68.6	68.9	68.4	68.7	69.3	70.0	70.7	70.7	-
United States	72.2	74.1	71.2	71.2	71.5	72.0	71.8	70.9	-

Source: Eurostat LFS (lfsq_ergan, 2009); OECD LFS (2009).

The average EU-27 employment rate is now nearly 65 percent, with most Eastern European countries below average. Only six countries have met the overall employment target of 70%. All in all in Europe shows a steady rise since 2000, but remains below the Lisbon target of 70 percent until 2008, and show a decline afterwards. Positive changes are not likely to occur in the short run, given the economic effects of the recent financial crisis. As a matter of fact, the effect of the crisis is especially prominent in some countries. Spain, Ireland and the Baltic states show employment rate drops of 4-6 percentage points, the Scandinavian countries and UK about half of that.

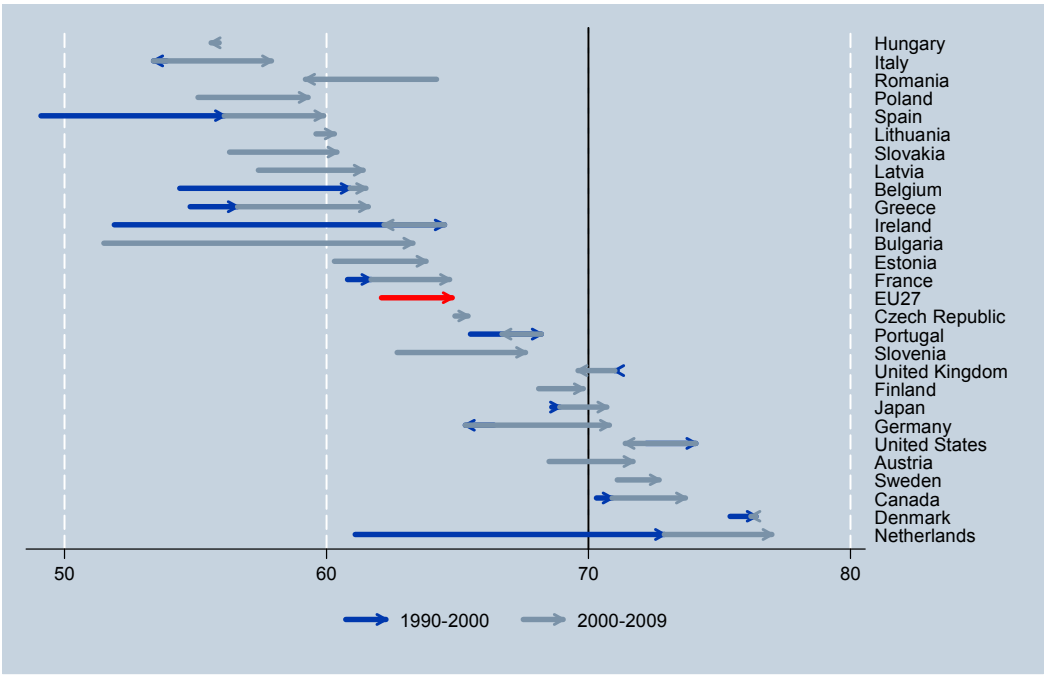
Figure 1 Employment rates in 2009



Source: Eurostat LFS (lfsq_ergan, 2009).

Figure 2 shows the long-term development of the employment rate graphically; the dark arrow shows the development during the ten years of the last decade of the 20th century, the light arrow shows the development in the first eight years of the current century.

Figure 2 Development of employment rates, 1990-2000-2009



Source: Eurostat LFS (lfsq_ergan,2009); OECD LFS (2009). US/Can/Japan data are from 2008.

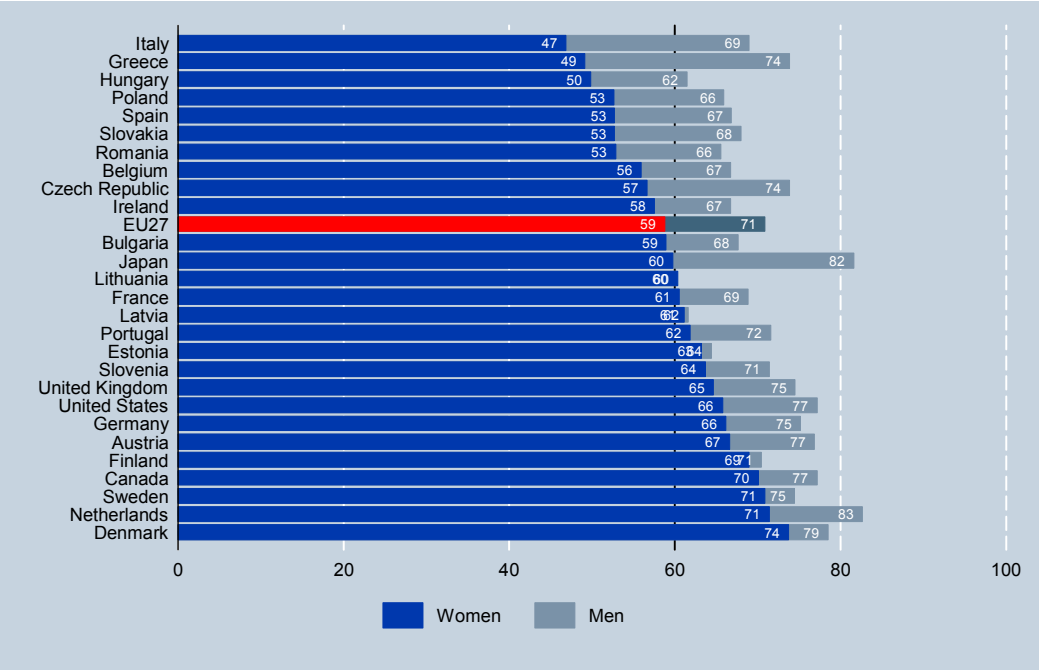
UK, Denmark plus the non-EU countries US, Canada & Switzerland had met the Lisbon target already in 1990. The Netherlands and Ireland made a huge catching-up during the nineties, but while the Dutch growth continued into the next decade, the Irish were badly hit by the recent crisis. The latter also applies for some new member states like Slovenia, Latvia and Estonia who experienced a huge drop in participation since 2008. Germany might meet the target thanks to more recent development. Spain showed high employment growth since 1990 onwards, but had to large a gap to close. In Belgium the economic situation is also negative, because the employment rate did not improve and stayed around 60 percent during the last decade. Italy is still far behind but finally growing (pre-crisis), which can not be said of Hungary where development is stagnating. Poland is a different case: they joined the EU only in 2004, and since then employment shows a positive development. All in all, the Lisbon target on average participation in 2010 will not be met.

1.3 Participation and gender

Another important target for 2010 is to reach an employment level of 60% among females (on average). In 2002 female employment was at 55.5 percent for the EU15. In 2009 this percentage has risen to 59% for all EU27 countries. In other words: getting very close, and expecting to get there in the near future. Denmark, Sweden, the Netherlands and Finland all have female participation rates of at least 10%-points above the target, and compensate for other EU countries that still lag behind (Italy, Greece and Hungary).

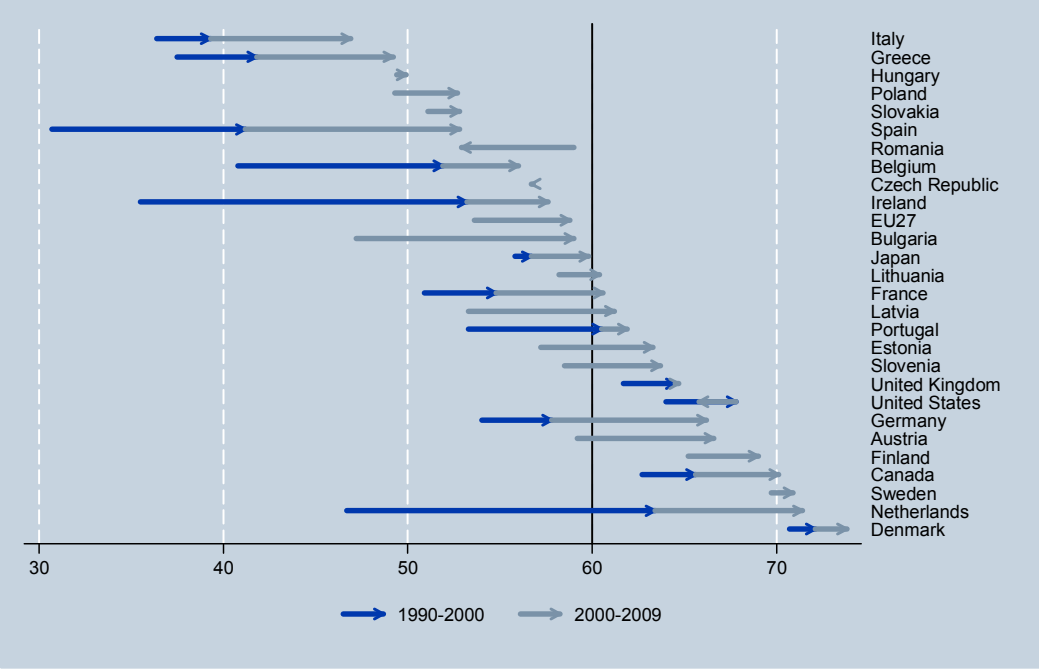
Within Europe there are structural differences in female labour markets. In most countries female employment is 10-15 percentage points less than male employment, but in Italy and Greece (and Japan) this so-called 'gender gap' is much larger. This can be seen in Figure 3 where employment rates are plotted for both men and women, and countries are sorted by the male employment rate. Female employment is still highest in Denmark at 74% (and rising), which is higher than male employment in Italy, France, Belgium and all of the new member states except Czech Republic and Estonia.

Figure 3 The gender gap in employment rates, 2009



Source: Eurostat LFS (lfsq_ergan,2009). US/Can/Japan data are from 2008.

Figure 4 Development of the female employment rate, 1990-2000 and 2000-2009



Source: Eurostat LFS (lfsq_ergan, 2009). US/Can/Japan data are from 2008.

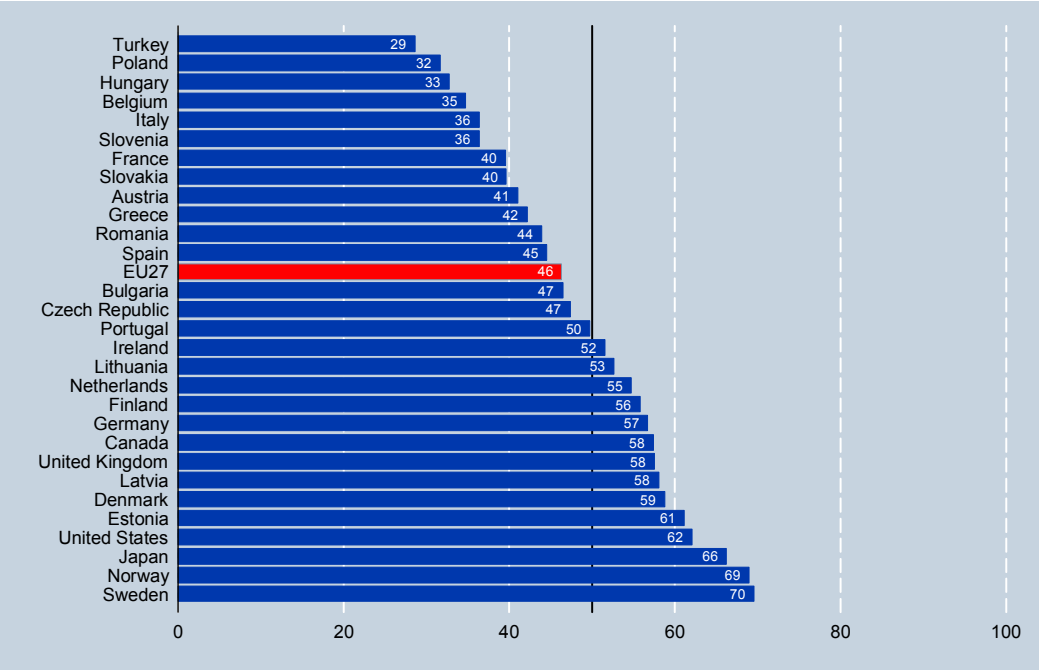
Meeting the Lisbon target at some point mainly depends on those countries where the gender gap leaves enough opportunity for new people to enter the labour market. Of course efforts for increasing participation will be most effective if business cycle conditions are favourable. This was the case during many years, but not any more since 2009.

There might be cultural differences to be overthrown, maybe more than economic differences. This might be illustrated by Figure 4 which shows female employment developments since 1990. Clearly, the Netherlands, Spain and Ireland showed a shift in the cultural pattern of women staying at home to women going to work: employment rates rose by 25 percent. The same is true, to a lesser extent, for countries like Belgium and Portugal. Bulgaria, Latvia and Estonia have also made a serious shift in the last nine years. So in most EU-countries female employment became part of labour market culture, or was part of it already.
But in the other Eastern European countries developments are not so positive in the last years, either they are small or they are negative. In Italy female employment is even lower than in Eastern Europe; it is a growing phenomenon but recent growth is not spectacular, given the fact that not even half of the Italian women are in some form of employment. Unfortunately, although many countries clearly passed the line, the gap with the larger East- and South-European countries is so big that the Lisbon target of 60 percent female employment will probably just be missed.

1.4 Participation and age

The third target to be reached in 2010 is an employment rate of 50% for the elderly. In this section we take a closer look at the different employment situations of younger and older people. Even though there are no specific targets specified on youth (aged 15-24), in some countries low youth employment (because of high unemployment) is more of a problem than low employment among the elderly (because of early retirement).

Figure 5 Employment rates of the elderly (age 55-64), 2009

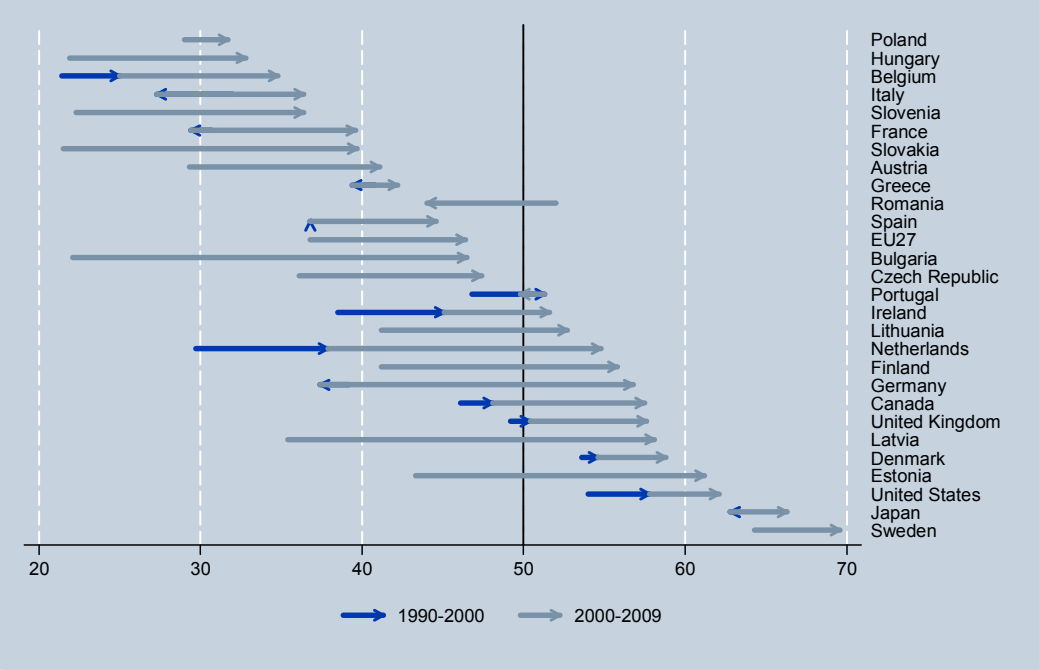


Source: Eurostat LFS (lfsq_ergan, 2009).

Figure 5 shows that the average employment rate for people aged 55-64 in 2009 is 46 percent. Romania and Spain are close to this average; Bulgaria, Czech Republic, Portugal, the Netherlands, Germany and the Anglo-Saxon and Scandinavian countries are well above. In Eastern & Central Europe and Italy often far less than 50 percent of the older people have a job. In countries like

that there is still a lot to gain, especially on the longer term when the economic cycle is moving upward again.

Figure 6 Development of the employment rate of the elderly (age 55-64), 1990-2000-2009

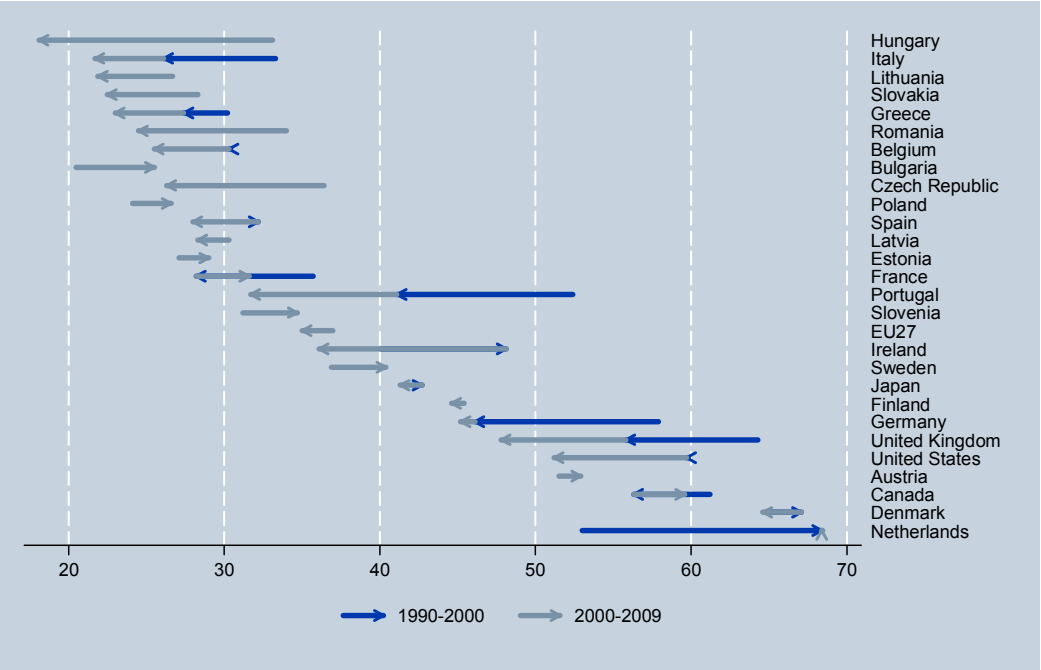


Source: Eurostat LFS (lfsq_ergan, 2009); OECD LFS (2009).

Fortunately, from Figure 6 it becomes clear that elderly participation is developing in the right direction in most countries (except Portugal and Romania), at least since 2000. In the EU27 participation of elderly did not rise during the last decade of the past century, but from 2000-2009 it increased by 10 percentage points. That is quite an achievement, but unfortunately it was still not enough: the Lisbon target of 50% participation of the elderly (aged 55 and over) will not be met.

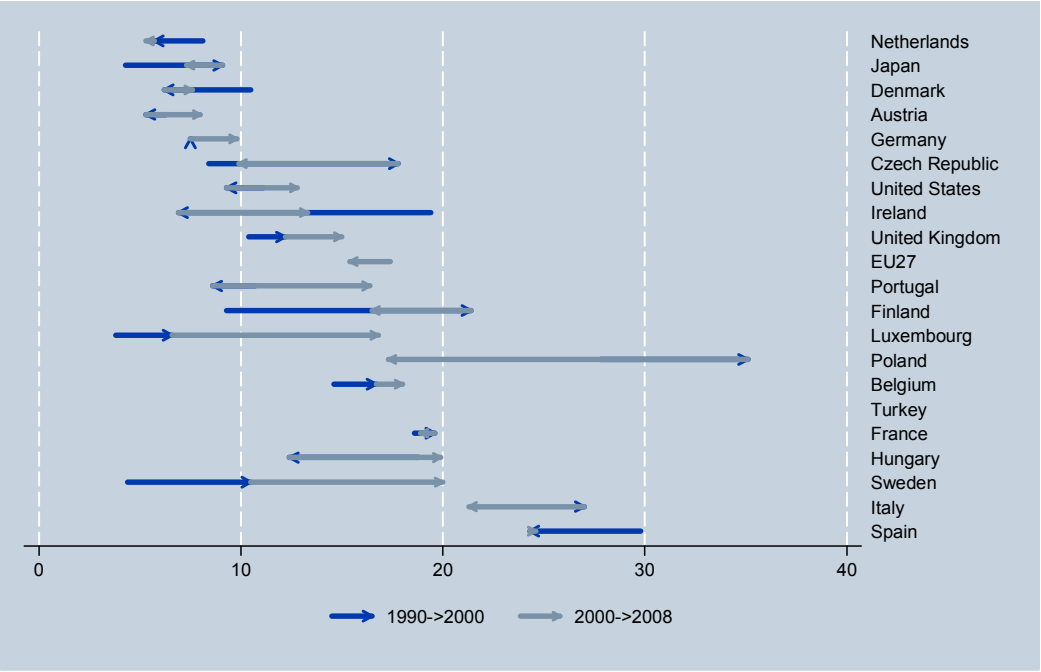
A different story has to be told when looking at youth employment and unemployment. Figure 7 shows that the development of youth employment has no clear pattern: in half of the countries youth employment has declined in the last eight year, the other half shows exactly the opposite. The Netherlands and Denmark have the highest employment among the youth and are still moving forward, while Hungary and Greece are going backwards.
But for this group employment participation does not tell the whole story. A lot of people are still in education, and if *ceteris paribus* participation in education rises then employment might fall for a positive reason. On the other hand, youth employment in the Netherlands has risen particularly sharp because the number of people who are both in education and in employment has risen. Students started to work in relatively small jobs to finance their education because reimbursements were cut. To get a complete picture we should also look at the youth unemployment rates, which are shown in Figure 8. (The Lisbon target on overall unemployment will be discussed later, in section 1.5).

Figure 7 Development of the youth employment rate (age 15-24), 1990-2000 and 2000-2009



Source: Eurostat LFS (lfsq_ergan, 2009).

Figure 8 Development of the youth unemployment rate (age 15-24), 1990-2000 and 2000-2008



Source: Eurostat LFS (une_rt_a, 2008); OECD LFS (2008).

We can see that in some countries youth unemployment changed quite a lot during the last 15 years while in other countries the development was less dramatic. A close linear relation between

employment rate development & unemployment rate development is not clear; structural changes in the combination of education & work are also significant. For instance, in the Netherlands in the past century a huge increase in employment did bring down unemployment only marginally. The increase in employment here came from people who were 'not in the labour force' before. On the other hand, in Ireland during the period 1990-2000 we do see a huge increase in employment accompanied by a huge drop in unemployment. Apparently there is a relation between higher employment rates and lower unemployment rates among youth, but other factors (combining education & work) are also important for this group.

1.5 Unemployment

The unemployment target of the Lisbon agenda was even more ambitious than the employment rate targets. In the year 2000 when the target was set out, only four countries had an unemployment rate below or just at the target rate of 4%, while the EU15 average was at 7.7% (see Table 4). In 2004 unemployment was even higher, and only since 2005 the figures show signs of recovery, bringing down unemployment. But it lasted till 2006 for the unemployment rate average to get below the original levels of the year 2000. And then came the financial crisis in the second half of 2008, which rapidly reclaimed the progress that had been made before. Between June and December, EU unemployment increased by 1.5 %-points. In the first half of 2009 another 0.4 %-points were added, in the second half another 0.6 %-points. Unemployment is higher than it has ever been since the targets were set. Spain shows a dramatic increase, which may not come as a surprise given the high incidence of fixed-term contracts in that country (we elaborated on this in section 5.2). Also unemployment in Latvia has risen dramatically last year.
In this section we look at the official statistics and the long-term development of unemployment. In section 1.6 we'll take a closer look on how the recent crisis affects the Lisbon strategy, based on short-term forecasts.

Table 4 Harmonized unemployment rates

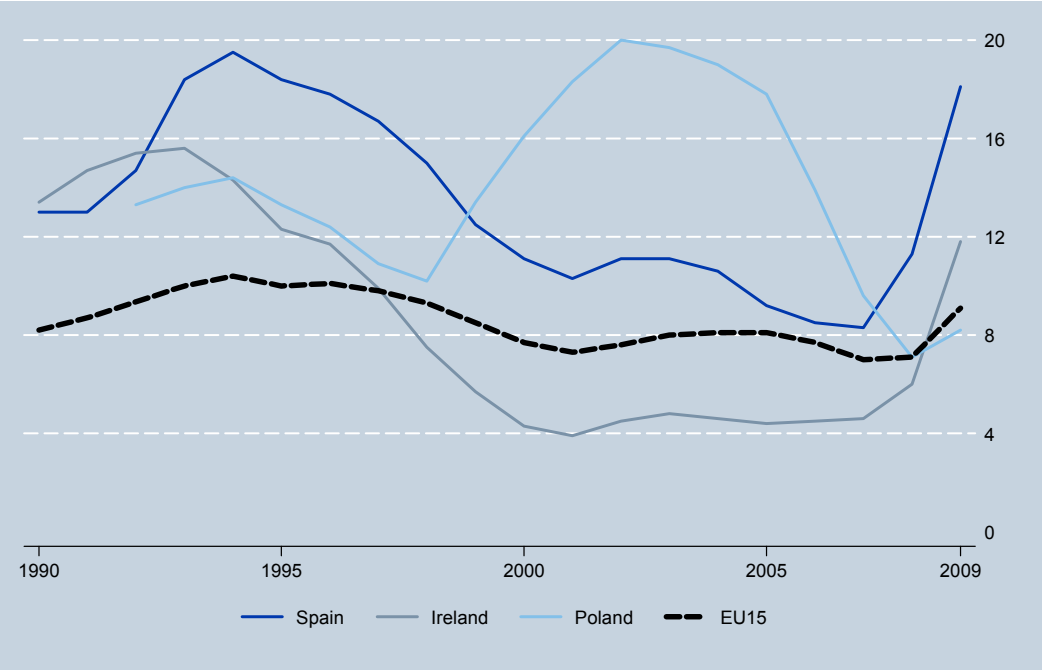
	1983	1990	1995	2000	2004	2005	2006	2007	2008	*2009q2*	*2009q4*
Austria			3.9	3.6	4.8	5.2	4.8	4.4	3.8	*4.8*	*5.5*
Belgium	10.7	6.6	9.7	6.9	8.4	8.5	8.3	7.5	7.0	*7.7*	*8.1*
Germany			8.0	7.5	9.8	10.7	9.8	8.4	7.3	*7.7*	*7.5*
Denmark	8.4	7.2	6.7	4.3	5.5	4.8	3.9	3.8	3.3	*6.1*	*7.1*
Spain		13.0	18.4	11.1	10.6	9.2	8.5	8.3	11.3	*18.1*	*19.4*
Finland		3.2	15.4	9.8	8.8	8.4	7.7	6.9	6.4	*8.5*	*8.8*
France	7.7	8.4	11.0	9.0	9.3	9.2	9.2	8.3	7.8	*9.5*	*10.0*
Greece	7.1	6.4	9.2	11.2	10.5	9.9	8.9	8.3	7.7	*9.2*	
Ireland	13.9	13.4	12.3	4.3	4.5	4.4	4.5	4.7	6.3	*12.2*	*13.0*
Italy	7.4	8.9	11.2	10.1	8.1	7.7	6.8	6.1	6.8	*7.4*	
Luxembourg	3.4	1.7	2.9	2.3	5.1	4.5	4.7	4.1	4.9	*6.4*	*6.1*
Netherlands	9.2	5.8	6.6	2.8	4.6	4.7	3.9	3.2	2.8	*3.3*	*4.0*
Portugal	8.2	4.8	7.1	3.9	6.7	7.6	7.7	8.0	7.7	*9.2*	*10.3*
Sweden	3.7	1.7	8.8	5.6	6.3	7.4	7.0	6.2	6.2	*8.8*	*8.9*
UK	10.8	6.9	8.5	5.5	4.7	4.8	5.3	5.3	5.6	*7.8*	
Cyprus				4.9	4.7	5.3	4.6	3.9	3.8	*5.3*	*6.1*
Czech Rep.				8.7	8.3	7.9	7.2	5.3	4.4	*6.5*	*7.8*
Estonia				12.8	9.7	7.9	5.9	4.7	5.5	*13.3*	
Hungary				6.4	6.1	7.2	7.5	7.4	7.8	*9.6*	*10.8*
Lithuania				16.4	11.4	8.3	5.6	4.3	5.8	*13.7*	
Latvia				13.7	10.4	8.9	6.8	6.0	7.5	*17.1*	*22.1*
Malta				6.7	7.4	7.3	7.3	6.4	5.9	*7.3*	*7.1*
Poland			13.3	16.2	19.0	17.8	13.9	9.6	7.1	*8.0*	*8.8*
Slovenia				6.7	6.3	6.5	6.0	4.9	4.4	*6.0*	*6.8*
Slovakia				18.8	18.2	16.3	13.4	11.1	9.5	*11.2*	*13.5*
Bulgaria				16.4	12.1	10.1	9.0	6.9	5.6	*6.4*	*7.7*
Romania				7.3	8.1	7.2	7.3	6.4	5.8	*6.4*	
Norway		5.2	4.9	3.4	4.4	4.6	3.5	2.6	2.6	*3.0*	
Canada	12.0	8.2	9.6	6.8	7.2	6.8	6.3	6.0	6.1	*8.6*	
Japan	2.6	2.1	3.1	4.7	4.7	4.4	4.1	3.9	4.0	*5.4*	
Turkey	7.7	8.0	7.6	-	-	-	8.4	8.5	9.4	*13.2*	
United States	9.6	5.5	5.6	4.0	5.5	5.1	4.6	4.6	5.8	*9.5*	*10.0*
EU27				**8.7**	**9.0**	**8.9**	**8.2**	**7.1**	**7.0**	***8.9***	***9.5***
EU25				8.6	9.0	8.9	8.2	7.2	7.1	*9.0*	*9.6*
EU15	10.0	8.2	10.0	7.7	8.1	8.1	7.7	7.0	7.1	*9.1*	*9.5*

Source: Eurostat LFS (une_rt_a, 2009; une_rt_q, 2010); OECD LFS (2009).

In the long-term perspective of Table 4, Spain is one of the most particular countries, together with Ireland and Poland (see also Figure 9 below). Where most unemployment rates have always been within the range of 4-12% since 1983, in these countries the unemployment peak has been much higher. In the mid-nineties, unemployment was roughly 20% in Spain and 16% in Ireland. Polish unemployment reached 20% in 2003. But there are marked differences between these countries as well. In Spain unemployment was by far the highest of all countries in our study during most of the nineties, despite a spectacular fall from 20% unemployment in 1994 to 11% in 2000. In the economic high tide between 2000-2007 Spain even catched up with other large countries like France & Germany. But the vulnerability of the Spanish labour market is shown in the rapidly rising unemployment since the early start of the crisis, reaching pre-2000 levels again.

Irelands unemployment rate was still high in 1993 (nearly 16%) but from that moment on the 'Irish employment miracle' brought down unemployment a spectacular 12 percentage points in the following 7 years. In less than a decade Ireland made the transition from 'highly problematic' to a nearly full employment country. But Irelands labour market has also been struck by the financial crisis, so that unemployment nearly doubled and is above average now.
Poland showed above average unemployment rates continuously, where a decreasing trend in the nineties turned into radically rising unemployment from 1998-2002. After EU accession unemployment rates dropped steeply, to even levels below EU15 average. Unlike Spain and Ireland, in Poland unemployment did not rise again dramatically last year.

Figure 9 High unemployment in the nineties



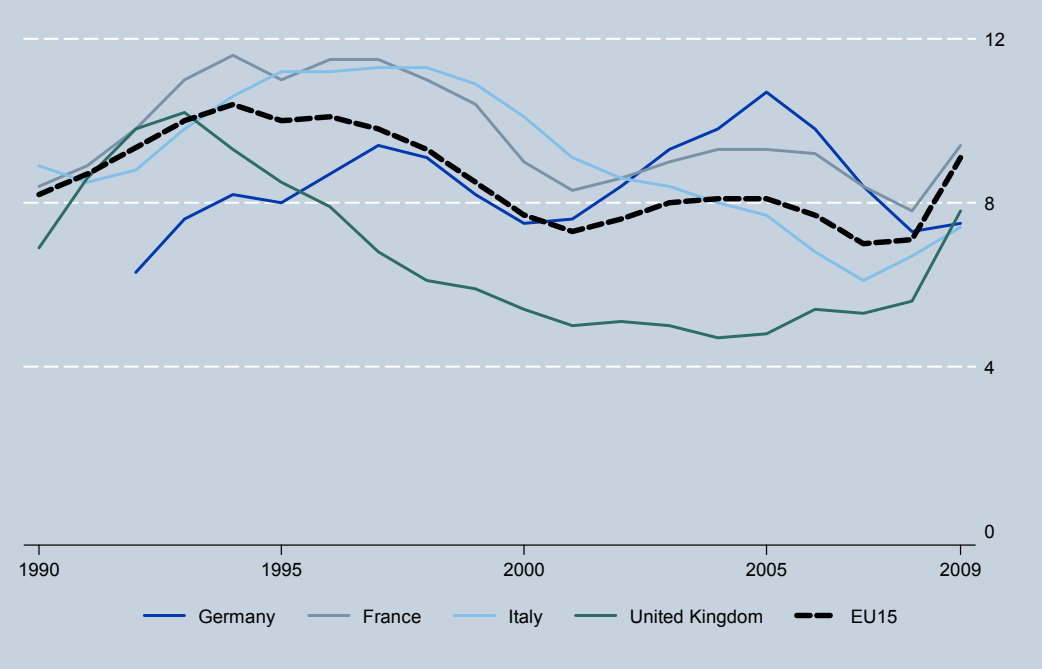
Source: Eurostat LFS (une_rt_a, 2010; une_rt_m, 2009).

In Figure 10 we focus on some other larger Western-European countries. During the early nineties unemployment rose all over Europe, but the duration of this effect differs widely across countries. The EU average stabilizes during 1994-1997 followed by a slight fall from 1997-2001. From 2001 onwards unemployment rose again all over Europe, but starting since 2005 this trend seems to be turned around. In the UK however, unemployment figures start to drop already from 1993 and continued to do so during the rest of the decade and even after 2001. Unemployment in the UK was well below at 6% in 2007, but it also hit by the economic downturn. The EU Autumn Forecast 2009-2011 expects unemployment in the UK to rise to 8.7% in 2010. [7]
In Italy and France the period of stabilization and recovery after the economic trough in the nineties started relatively late. As a result they showed above average unemployment. In Italy the negative pattern reversed when unemployment continued to drop after 2001 while the EU (and the French) average rose again. Italy's unemployment was below average for the first time in 2005. And it still is: forecasts speak of levels between 8-9% until 2010. Unemployment in France moves quite parallel to the EU average, but always at a higher level.

[7] see http://ec.europa.eu/economy_finance/thematic_articles/article16051_en.htm.

Trends in Germany are different: while unemployment was relatively low at the end of the eighties in Germany, after unification unemployment rose rapidly to nearly 10% in 1997. In the beginning of the 21st century it faced the highest unemployment of the larger countries, but from 2006 onwards the situation turned positive relatively quick. Remarkably, statistics show only a modest crisis effect for the German unemployment, although forecasts predict that unemployment will go up after all in 2010, to 9.2%.

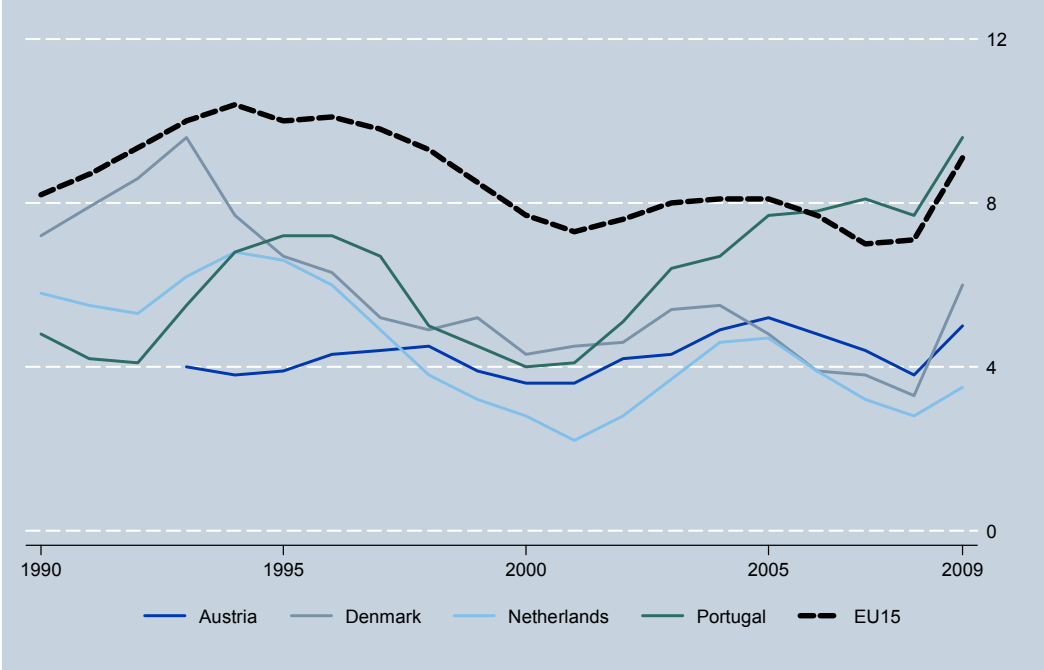
Figure 10 Most larger EU-countries kept the average up till 2005, but not anymore



Source: Eurostat LFS (une_rt_a, 2010; une_rt_m, 2009)

In Figure 11 the rapid decline of unemployment during the nineties is set out for some smaller EU countries. From 2005 onwards these countries showed a decline, and in the summer of 2008 Austria, Denmark and the Netherlands all met the Lisbon target of 4%. Portugal went in the wrong direction since 2000 and now has an unemployment rate of more than twice the target level. In Austria and Denmark unemployment went up sharply, and also in the Netherlands unemployment is rising again in 2009, and will continue to do so in 2010. The Lisbon target will prove too difficult, even for these 'low-unemployment' countries.

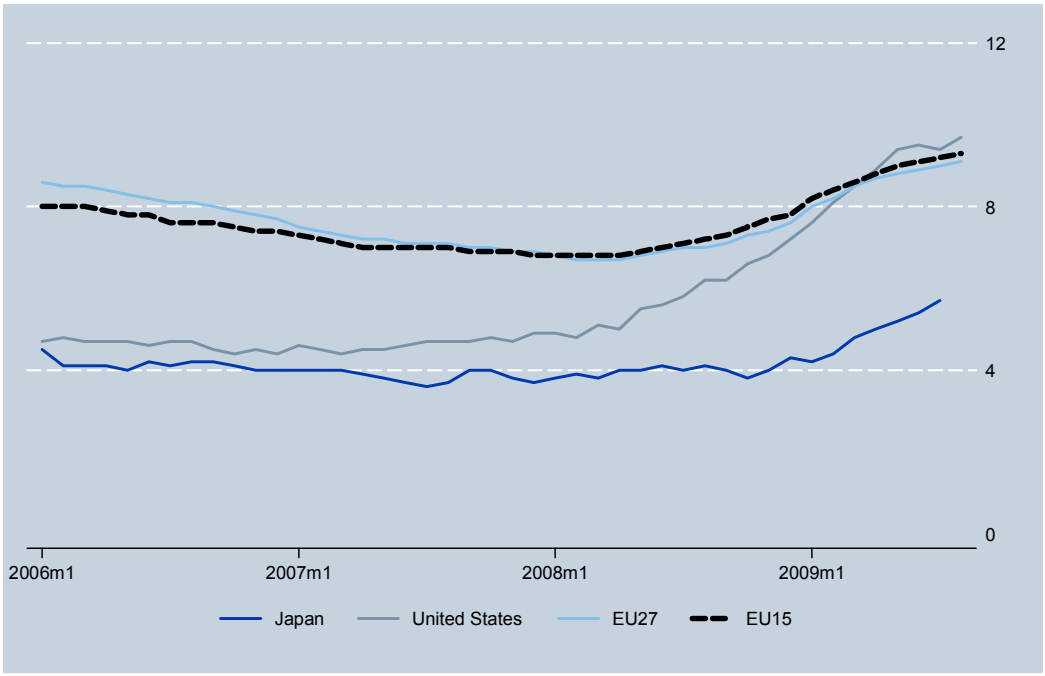
Figure 11 Smaller EU-countries have lower, but rapidly rising unemployment



Source: Eurostat LFS (une_rt_a, 2010; une_rt_m, 2009).

Little hope might be gathered from the latest figures in Figure 12. It also shows that non-European countries like Japan and US have always had lower unemployment than Europe, Only the economic crisis caused the US unemployment to rise above EU-levels momentarily.

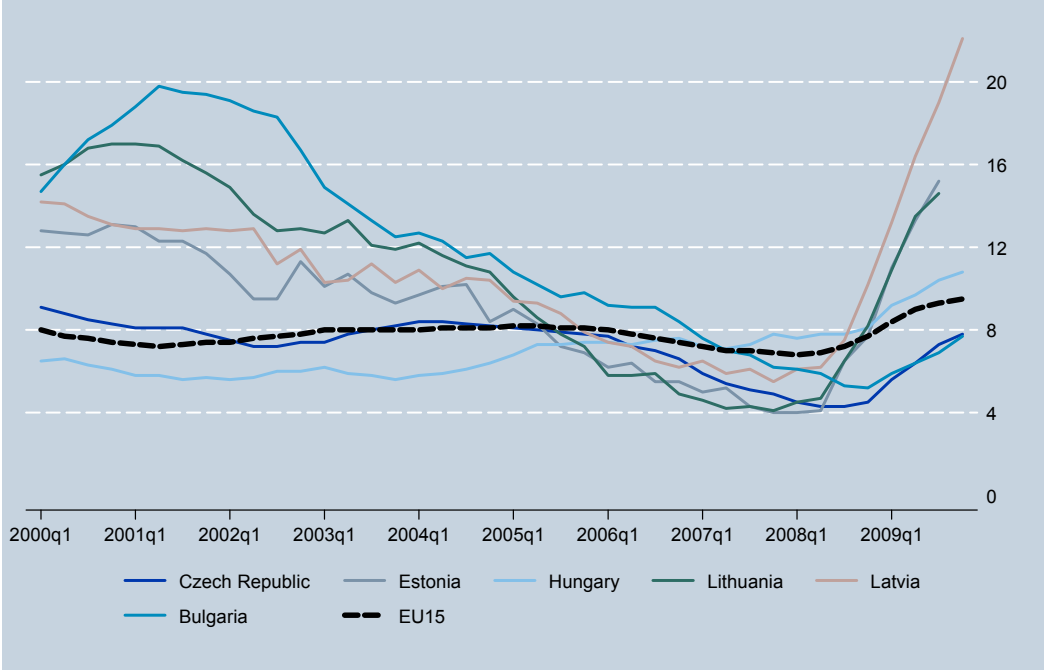
Figure 12 EU unemployment was falling since 2005 but target was never within sight



Source: Eurostat LFS (une_rt_m, 2010).

In recent years unemployment has been higher in the Western European countries (EU15) than in the new member states. That changed drastically when the economic crisis struck, as can be seen from Figure 13. This figure does not include Poland which is already shown in Figure 9. Over the last decades, before 2008, we can see Eastern Europe in two categories: Czech Republic and Hungary where unemployment was relatively constant, and the other countries where huge improvements were made since 2001. How vulnerable these countries still are can be seen since the recent economic downturn. In all three Baltic stat the reaction of the labour market is dramatic: in Latvia unemployment was over 22% at the end of last year.

Figure 13 Unemployment in Eastern European countries



Source: Eurostat LFS (une_rt_q, 2010).

1.5.1 Job search methods

Which methods do unemployed people employ in their search for a new job? How important is the role of private employment agencies? These are not simple and straightforward questions, as the use of temporary work agencies differs strongly between countries. From the EU Labour Force Survey it is known what methods unemployed people have used recently to find a job. The averages are given in Table 5 below.

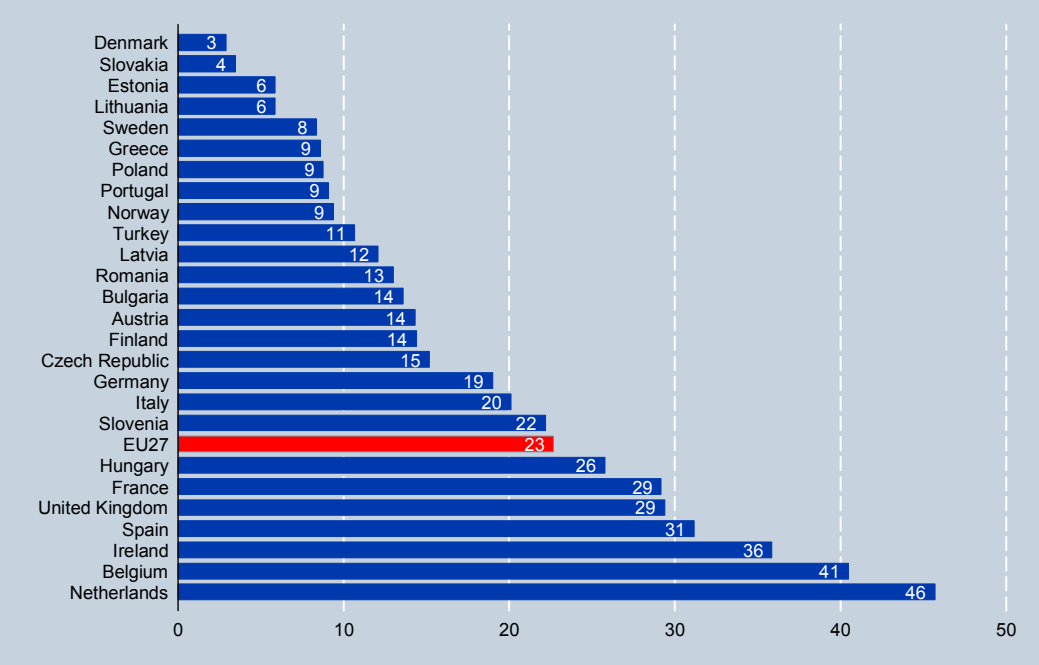
Table 5 Methods used for seeking work, (EU-27, 2009)

Contact public employment office	58.7%
Contact private employment office	22.7%
Apply to employers directly	57.0%
Ask friends, relatives, trade unions	65.2%
Publish or answer advertisements	41.1%
Study advertisements	68.9%
Took test, interview, examination	15.7%
Look for land, premises, equipment	1.4%
Look for permits, licenses, financial resources	1.2%
Other method	16.5%

Source: Eurostat LFS (lfsq_ugmsw, 2009).

In the EU-27 on average, 20 percent of the unemployed uses private employment agencies in their search for a new job. But clear differences exist between the member countries, which is illustrated in Figure 14 below. In the Netherlands and Belgium private employment agencies play an important role in the matchmaking between unemployed and employers, with usage of over 40 percent. However, the use of private employment agencies is still very limited in Scandinavian and many Eastern European countries.

Figure 14 Unemployed searching through private employment agencies, 2009 (%)

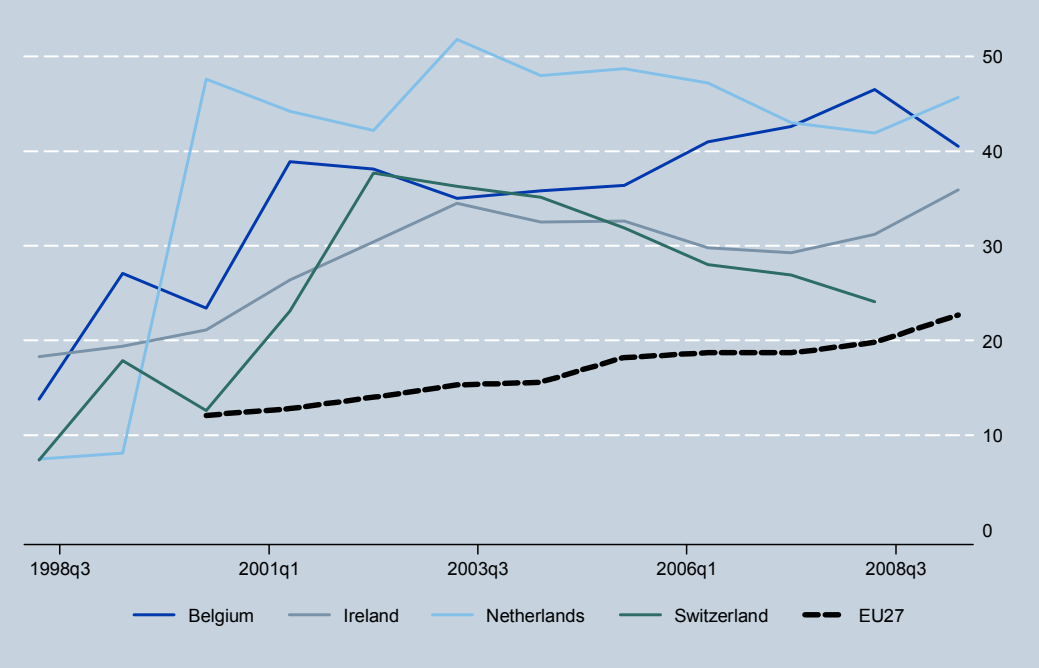


Source: Eurostat LFS (lfsq_ugmsw, 2009).

Developments over time are presented in Figure 15 and Figure 16. On average the use of private employment agencies among jobseekers in Europe has grown steadily, from 12% in 2000 to 23% last year. On the country-level however we do not see gradual movements, but sudden increases in 1999-2000 in the Netherlands & Belgium, as well as slow decreases in Ireland and Switzerland since 2003. In Germany and France we do not see spectacular changes, while in Italy private employment agencies became clearly more important in the last ten years. Most important factor

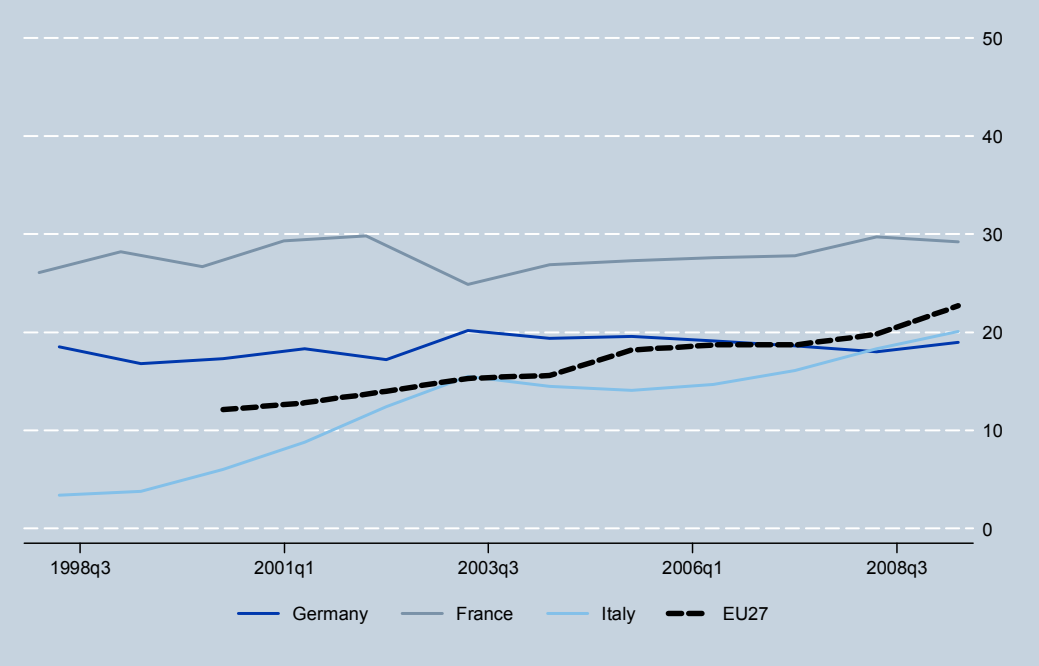
here must be regulatory reforms: it was not allowed in every sector in every country to use temporary agency workers. In fact, in some countries bans on the use of temporary agency workers are still in place for specific sectors.

Figure 15 Use of private employment agencies by unemployed, 1998-2008



Source: Eurostat LFS (lfsq_ugmsw, 2009).

Figure 16 Use of private employment agencies by unemployed, 1998-2008



Source: Eurostat LFS (lfsq_ugmsw, 2009).

1.5.2 Long term unemployment

Although no special target was formulated for long-term unemployment by the Lisbon Agenda, this subject is worth a special section. It is an empirical fact that the chance of getting back in a job becomes smaller and smaller the longer one stays unemployed. That means that high unemployment alone does not have to be a problem, as long as mobility is high so people don't stay unemployed for too long. In Table 6 we can see the percentages of all unemployed persons that are looking for a job for more than 12 months. It is obvious that in the US long-term unemployment is limited, while in Slovakia, Bulgaria, Germany, Czech Republic, Poland, Belgium, Romania and Greece about half or more of unemployment is long-term unemployment. The EU-average was mostly around 40% of all unemployed persons, but now the share is falling. These figures constitute a real problem because this kind of unemployment is persistent. Chances that these people will return into employment have become quite low during the unemployment period, and it will take a lot of extra effort to make labour market policy work for this group.

Table 6 Long-term unemployment rates (% of unemployed for >12 months)

	1995	2000	2004	2005	2006	2007	2008	2009
Austria	26.8	27.7	27.5	25.3	27.4	26.8	23.6	19.4
Belgium	60.1	54.2	49.0	51.7	51.2	50.4	52.6	47.5
Germany	48.2	51.2	56.3	53.0	56.4	56.6	53.4	45.9
Denmark	29.3	21.7	21.5	23.4	20.8	16.2	16.1	7.4
Spain	55.9	41.7	32.0	24.5	21.7	20.4	17.6	21.5
Finland		28.2	24.0	25.8	25.2	22.9	14.9	12.3
France	39.4	38.8	40.6	41.0	41.9	40.2	40.4	35.2
Greece	50.7	54.7	53.1	52.2	54.3	50.0	49.6	41.3
Ireland	61.9	37.3	34.9	33.4	32.3	30.0	29.4	24.0
Italy	63.4	61.8	49.2	49.9	49.6	47.4	47.5	45.5
Luxembourg	24.6	24.0	21.0	26.4	29.5	28.7	38.1	26.3
Netherlands	47.4	26.5	34.2	40.2	43.0	39.4	36.3	25.4
Portugal	43.3	42.3	44.3	48.2	50.2	47.1	48.3	43.6
Sweden	25.9	25.0	19.3	17.6	15.2	13.8	10.9	10.9
United Kingdom	41.9	26.7	20.5	21.1	22.3	23.8	25.5	22.9
Cyprus		25.2	26.2	23.5	19.3	18.6	11.8	8.7
Czech Republic		48.6	51.0	53.0	54.2	52.2	51.1	28.6
Estonia		45.8	52.2	53.4	48.2	49.5	34.8	23.5
Hungary		48.0	44.0	45.0	45.1	46.8	47.6	41.1
Lithuania		48.7	51.2	52.5	44.3	32.0	16.9	20.6
Latvia		57.8	43.8	46.0	36.2	26.4	26.8	24.1
Malta		65.8	46.7	46.4	40.6	41.9	39.6	45.6
Poland		46.1	54.0	57.7	56.1	51.3	35.0	29.4
Slovenia		61.4	51.5	47.3	49.3	45.7	45.7	30.4
Slovakia		54.7	64.7	71.9	76.3	74.2	72.8	52.2
Bulgaria		57.0	59.5	59.8	55.7	58.8	50.7	44.6
Romania		51.5	58.9	56.3	57.8	50.0	41.0	36.5
Switzerland		26.9	31.8	36.4	37.2	39.3	32.5	
Norway		10.2	18.1	18.7	23.2	18.5	11.1	16.4
Canada	16.8	11.2	9.5	9.6	8.7	7.5	7.1	
Japan	18.1	25.5	33.7	33.3	33.0	32.0	33.3	
Turkey		21.3	39.4	39.4	30.2	26.2	24.3	23.8
United States	9.7	6.0	12.7	11.8	10.0	10.0	10.6	
EU27		**46.1**	**46.1**	**45.9**	**45.5**	**42.7**	**38.5**	**32.3**

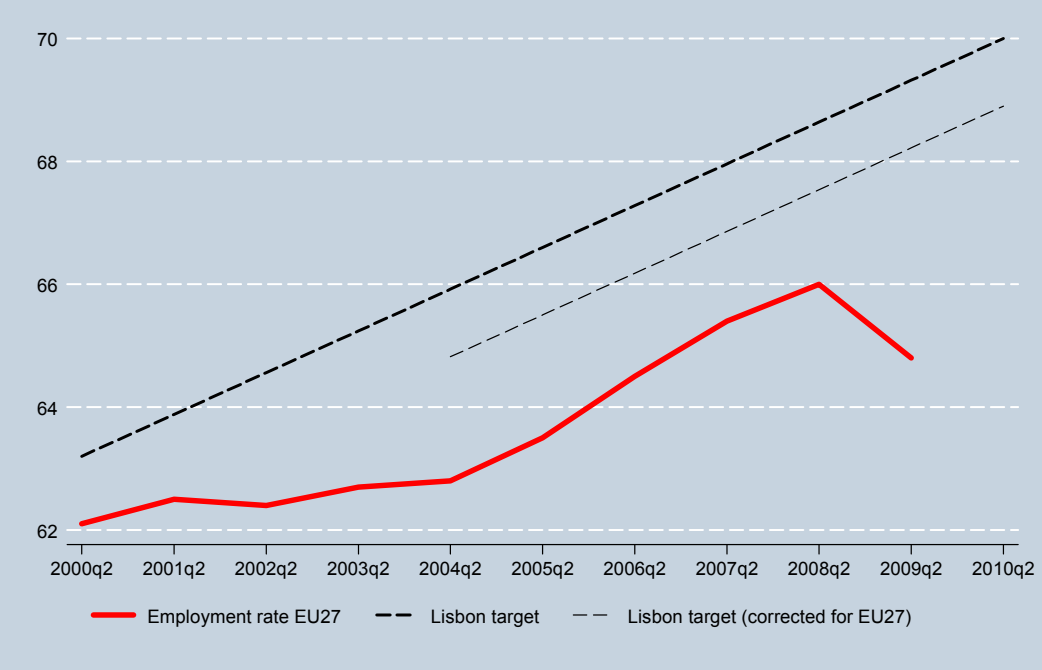
Source: Eurostat LFS (une_ltu_a, 2008; une_ltu_a, 2009); OECD LFS (2009).

1.6 Road to Lisbon blocked by crisis?

Lately, it seems that every economic policy discussion is dominated by the economic crisis, and understandably so. The severity of the recession was unforeseen, and we still don't know how deep it will be, what damage it will do or when it will be over. Although we will argue in Chapter 2 that in the long run the potential employment gap is Europe's main challenge, it becomes evident that the impact of the crisis on the Lisbon strategy is the most important challenge in the short run.

The European Union's 2010 Lisbon employment targets, originally agreed upon in 2000 by the then fifteen Member States, are all affected by the recession in an important way. Just as some targets were about to be realized, the economic downturn washed away this possibility. The figure below shows how the road to Lisbon of the EU-27 (regarding the overall employment target) was blocked by the impact of the crisis.

Figure 17 Road to Lisbon employment target blocked by crisis



Source: Eurostat LFS (lfsq_ergan, 2009); OECD LFS (2009).

Although the participation rise since 2004 did not really bring the original 70%-target in clear sight already, the movement is clearly in the wrong direction since 2008q2. Even if we would allow a correction because the new member states faced a lower employment than the EU15 for which the target was originally formulated, the crisis impact rendered it out of reach.

A similar picture is shown by Figure 18 regarding the female participation target.[8] Congratulations were already in the making since 2007, but they appeared premature. Last year the average employment rate has fallen, and will not catch up in time, given the outlook in the second part of this section.

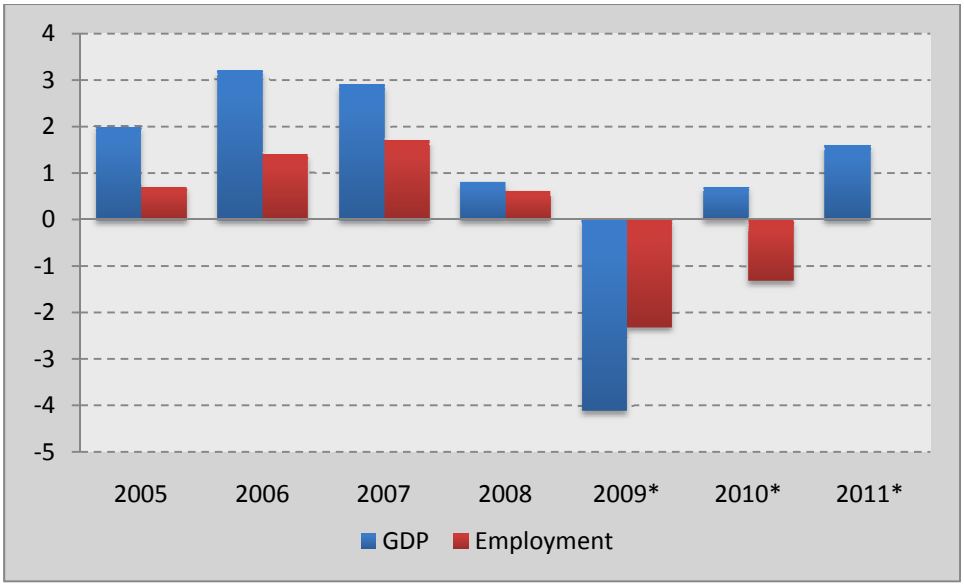
[8] A 'corrected' target is not included here, because female participation in the EU15 did not differ very much from female participation in the new member states when the original target was formulated.

Figure 18 Road to female employment target bent backwards

Source: Eurostat LFS (lfsq_ergan, 2009).

In Figure 19 and Table 7 below we present the latest EU forecasts[9], to indicate the possible short-term impact on two important economic variables. The countries in the table are sorted on their projected unemployment level in 2010, from lowest (the Netherlands) to highest (Spain).

Figure 19 EU27 forecasts, GDP and employment growth rates,



Source: EC, EU Autumn forecasts 2009-2011.

[9] See ec.europa.eu/economy_finance/thematic_articles/article16051_en.htm.

Table 7 EU Autumn Forecasts 2009-2011

	GDP growth			Unemployment level		
	2009	2010	2011	2009	2010	2011
Netherlands	-4.5	0.3	1.6	3.4	5.4	6.0
Denmark	-4.5	1.5	1.8	4.5	5.8	5.6
Austria	-3.7	1.1	1.5	5.5	6.0	5.7
Japan	-5.9	1.1	0.4	5.8	6.3	7.0
Cyprus	-0.7	0.1	1.3	5.6	6.6	6.7
Luxembourg	-3.6	1.1	1.8	6.2	7.3	7.7
Malta	-2.2	0.7	1.6	7.1	7.4	7.3
Czech Republic	-4.8	0.8	2.3	6.9	7.9	7.4
Bulgaria	-5.9	-1.1	3.1	7.0	8.0	7.2
Slovenia	-7.4	1.3	2.0	6.7	8.3	8.5
Italy	-4.7	0.7	1.4	7.8	8.7	8.7
Romania	-8.0	0.5	2.6	9.0	8.7	8.5
United Kingdom	-4.6	0.9	1.9	7.8	8.7	8.0
Portugal	-2.9	0.3	1.0	9.0	9.0	8.9
Germany	-5.0	1.2	1.7	7.7	9.2	9.3
Belgium	-2.9	0.6	1.5	8.2	9.9	10.3
Poland	1.2	1.8	3.2	8.4	9.9	10.0
USA	-2.5	2.2	2.0	9.2	10.1	10.2
Greece	-1.1	-0.3	0.7	9.0	10.2	11.0
France	-2.2	1.2	1.5	9.5	10.2	10.0
Finland	-6.9	0.9	1.6	8.5	10.2	9.9
Sweden	-4.6	1.4	2.1	8.5	10.2	10.1
EU27	**-4.1**	**0.7**	**1.6**	**9.1**	**10.3**	**10.2**
Hungary	-6.5	-0.5	3.1	10.5	11.3	10.5
Slovakia	-5.8	1.9	2.6	12.3	12.8	12.6
Ireland	-7.5	-1.4	2.6	11.7	14.0	13.2
Estonia	-13.7	-0.1	4.2	13.6	15.2	14.2
Lithuania	-18.1	-3.9	2.5	14.5	17.6	18.2
Latvia	-18.0	-4.0	2.0	16.9	19.9	18.7
Spain	-3.7	-0.8	1.0	17.9	20.0	20.5

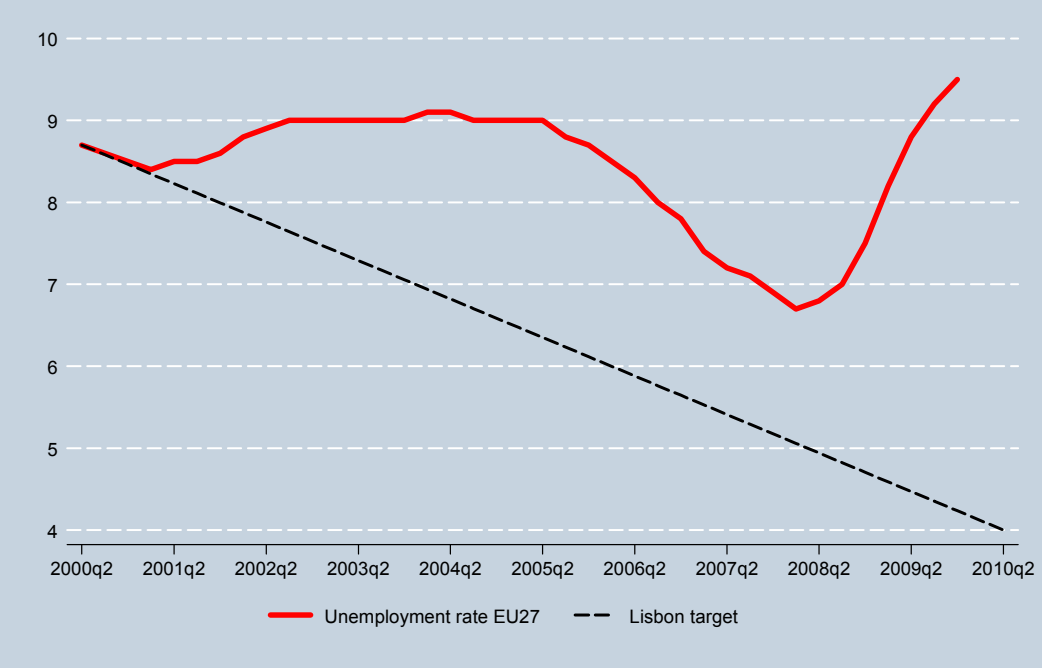
Source: EC, EU Autumn forecasts 2009-2011. Countries are sorted by 2010 unemployment level.

The severity of the economic crisis that dominates the world economy since the second half of 2008 illustrates the limitations of any forecasting exercise. In the short run, the only sure thing is that the economic indicators will not improve much in 2010. The latest EU forecasts predict an average negative GDP growth of 4% in 2009, and a modest growth of only 0.7% in 2010 and 1.6%. This unfortunate outlook spreads to all countries, although differences are easy to see. Forecasts for 2009 range from -18% GDP growth for Latvia and Lithuania, to a positive 1.2% for Poland. The Baltic states will also see negative growth in 2010, while the USA and most European countries will take up positive growth again.

Unemployment is expected to rise to an average of over 10% in 2010. Spain and the Baltic States will be hit extraordinarily hard, with unemployment reaching more than 20% this year. That would mean a return to the conditions of the early 1990's, when Spain faced an all-time high of

19.5% unemployment. Even low-unemployment countries, like Cyprus, Austria, Denmark, and the Netherlands will face unemployment levels of 5-6%.[10]

Figure 20 Unemployment target EU27 has never been in sight



Source: Eurostat LFS (une_rt_q, 2010).

1.7 Summary

Put simply, none of the Lisbon targets will be met in 2010. The average European employment rate will remain below 70%, while average employment for women will remain below 60% and for elderly below 50%. Unemployment will not only be higher than the target of 4%, it will actually be 2-3 times as high.

Looking per country, only some countries meet the Lisbon targets of employment, none will meet the unemployment target. Countries that were unlikely to meet Lisbon targets in 2010 *before* the impact of the financial crisis and economic recession are certainly not going to meet targets now that a recession is occurring. But recent forecasts are such that all countries that were getting close will not be able to meet the targets anymore.

[10] The forecasts mentioned here are EU forecasts from November 2009. Some countries have published their own forecasts, which often deviate considerably. For example in the Netherlands, an unemployment rate of 8 is forecasted for 2010. It is commonly believed that this forecast is too pessimistic.

2 Demand and supply in the future labour market

Which trends will be the most important for the future European labour market? After studying modern labour relations against their historic background, this chapter makes an attempt to look forward. After all the economic crisis is deep, but not everlasting. What goes down must come up at some point, although not every country will face the same problems. What type of labour market imbalances should be expected, when the effects of the current crisis have long disappeared? How do these imbalances differ per country, and which solutions appear most eligible?

Two years ago we already reported on long-term labour market frictions (see Berkhout et al., 2007) by introducing the so-called 'potential employment gap'. In this chapter we review that topic once more (section 2.2) and present an update (2.3). We look at the different impacts per country (2.4) and then discuss possible solutions (2.5).

2.1 Ageing: a long-term trend

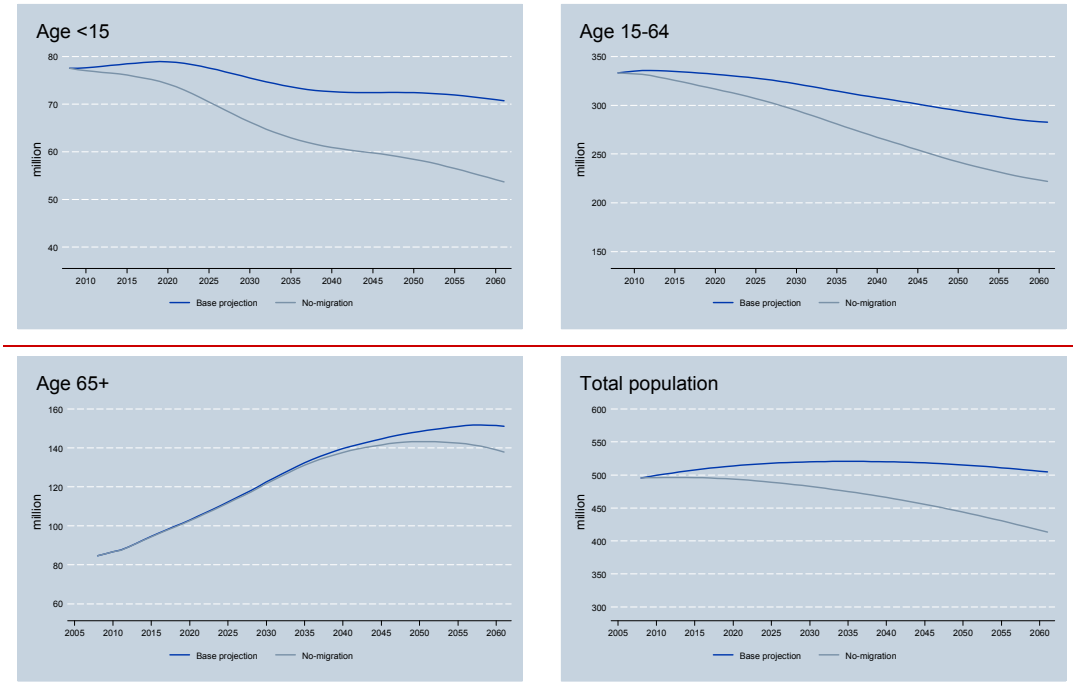
Because the economic recession currently leads to a sharp and sudden decrease of labour demand resulting in lower employment rates and an increase in unemployment, it is tempting to focus all attention on this short-term problem. But it remains important to remember that during a recession population trends do not stop. Focus on the long term remains necessary: once the recession has lifted, the long-term issues we were working on *before* the crisis will still be waiting for us. Ironically, although long-term predictions exhibit more uncertainty than short-term projections, they are more resistant to specific shocks, such as the current recession and financial crisis.

Eurostat has published a recent long-term outlook in which they present population development scenarios for the EU Member States for the period 2008-2060 (Eurostat, 2008). This section shows some results of this outlook. [11] Figure 21 shows clearly that the number of elderly will grow while the number of working-age persons and children will decline. In the baseline projection the working age group will decline from over 330 million to just over 280 million in the next 50 years. The 'no migration' scenario is not a realistic scenario, it is a hypothetical construct to show the implicit impact of migration in the baseline population projection. [12] The projections from this scenario are included in the figure, and will be discussed in more detail in section 2.3.4.

[11] We do not discuss the projection in detail, background information can be found in Eurostat (2008) and in Berkhout et al. (2007).

[12] All the parameters of the 'no migration' scenario are similar to the parameters of the baseline projection, except for the projected migration. Each country is assumed to have no outflow and no inflow of citizens, only births and deaths. While this is completely unrealistic, it is useful to show the implicit effects of migration. for more detail on the methodology see Eurostat, Statistics in Focus, 72,2008.

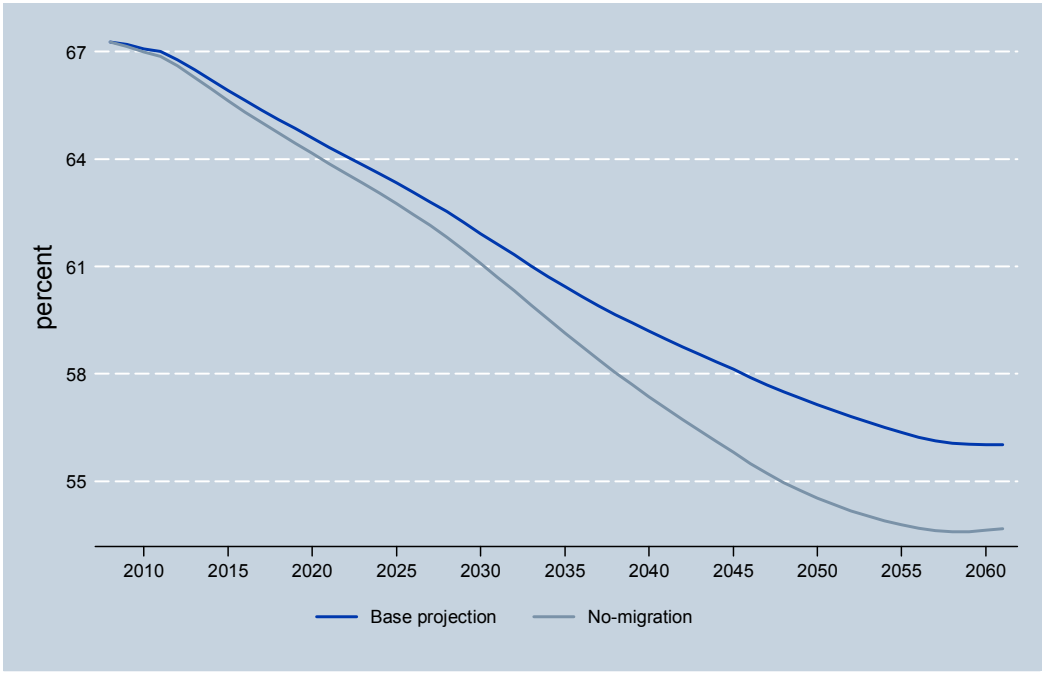
Figure 21 Youth, working age and elderly population, EU-27, projection 2008-2060



Source: Eurostat (EUROPOP2008).

The most relevant implication of the previous figures, is that the relative size of the working age group will fall. Figure 22 shows that the share of people in the working age ('potential employment') will decline, from 67% to somewhere between 54-57%.

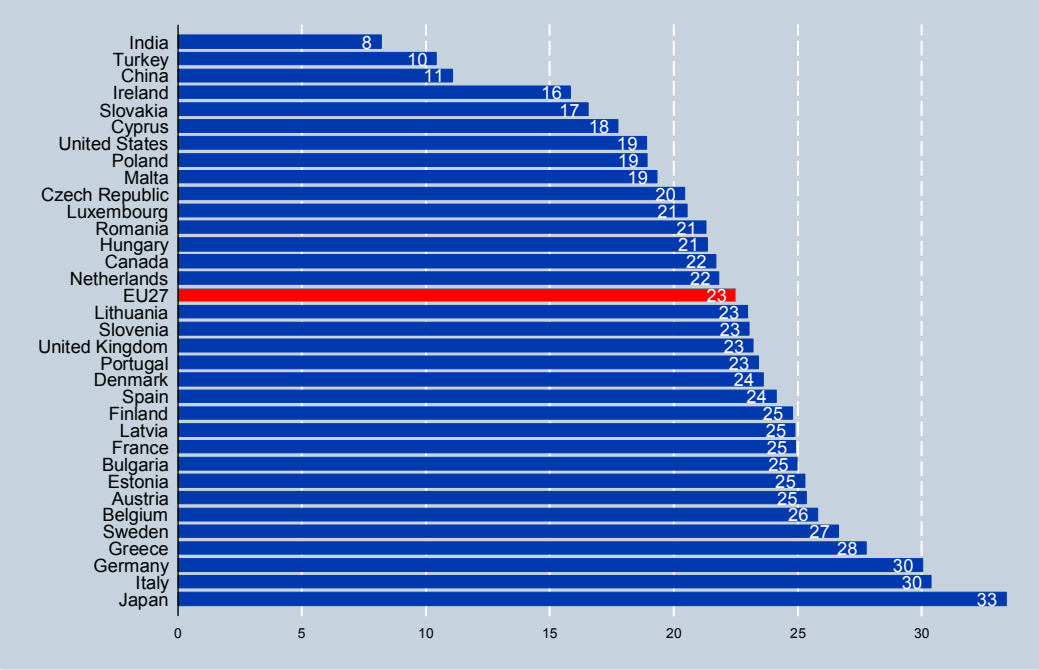
Figure 22 Working age as % of total population, EU-27, projection 2008-2060



Source: SEO calculations based on Eurostat (EUROPOP 2008).

The impact of ageing will be larger in some countries than in others, depending on the institutional design of the welfare state and on the national share of elderly. Figure 23 shows the current grey rate for European and other countries. It becomes clear that in Japan, Italy, Germany and Greece ageing will have a lot more effect (and a lot sooner) than in the non-Western or Anglo-Saxon countries.

Figure 23 Grey rate per country in 2007 (population 65+ as % of population 15-64)

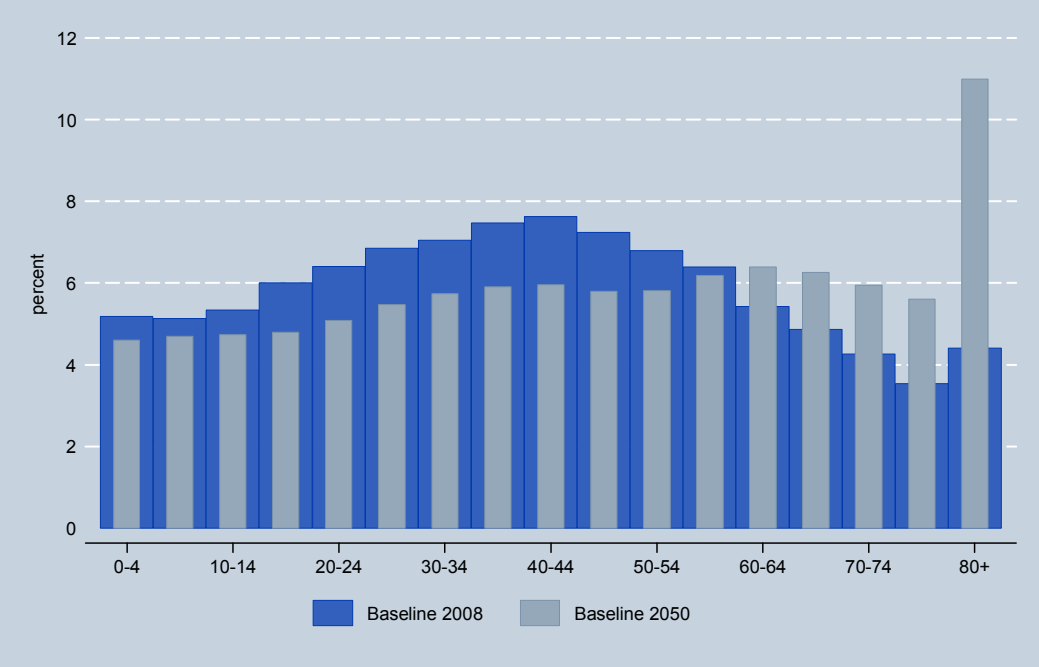


Source: Eurostat (pjan, 2009), CIA Factbook (2008).

Effects of ageing on potential labour supply

Figure 24 compares the detailed age distribution in 2008 with the projected distribution in 2050 (baseline projection EU-27). The height of the bars represents the relative size of the age group in the total population, the blue bars for the 2008 population and the grey bars for the 2050 population. All the blue bars together sum to 100%, as do all the grey bars together.

Figure 24 Age distribution of the EU-27 population, 2008 vs. projection 2050



Source: SEO calculations based on Eurostat (EUROPOP 2008).

In the coming decades the bulk -which is now in the middle- will shift to the right. The share of people in the working age (15-64) will become smaller, the share of elderly (65 years and over) will rise and the share of 'older elderly' (aged 80+) will more than double.[13]

Because most elderly do not want to work anymore, they do not supply any labour on the labour market. As such, ageing will bring down the share of the **potential labour force** (people in the age of 15-64): the potential **supply of labour** will diminish.

At the same time, the effective demand for goods and services is still in place. Both the younger and the older population still wants to consume; they all need food & drinks, housing, health care, transport, holidays etc. etc. Let's therefore assume, for the time being, that the **demand for labour** will remain constant. Of course this assumption is simplistic, but it serves an explanatory purpose and we will relax this assumption later on. We will also discuss the impact of alternative assumptions in section 2.3.6.

A lower supply confronted with a constant demand leads –*all else equal*- to what we have called a **potential employment gap**. It is not literally a 'gap', because over the course of time the economic system will inherently try to restore equilibrium. Some economic parameters (that we

[13] The figure shows that in 2050 around 11% of our population will have an age of 80 years or higher. The share of people between 15-64 will have fallen from 67.3% to 57.1%.

assumed constant, for the sake of argument) will have to adjust in order to close this potential gap. For example, people have to produce more goods per employee (increase labour productivity). Or the employment rate has to increase, even when the Lisbon targets have been met. Wages will also be influenced by structural imbalances, net wages will be an important instrument in both solutions mentioned above. We will discuss which economic parameters are most eligible for adjustment, per country, in section 2.5.3. The concept of potential employment gap hereby serves as a quantitative measure of tension, it shows how much the economic parameters have to adjust.

Notice that we only look at *employment* issues, *not* at issues relating to *public finance*. In our calculations we assess how - in an ageing society - labour supply will change, leading to potential labour market frictions. We do not deal with other (financial) aspects of an ageing society. For example, how to finance the increased demand for health care, state pensions, etcetera. This means that even when employment would remain at the current level, the employed population will still spend a greater part of their income on financing the elderly population (unless public finance arrangements are altered). The question of how to prevent this is part of a separate line of research and beyond the scope of this publication.[14]

2.2 Potential employment gap revisited

The concept of a potential employment gap needs an update, for various reasons. The first reason for an update is that Eurostat recently published a new outlook in which they present population projections for the EU Member States for the period 2008-2060. This new outlook builds on the most recent insights on each country's fertility rate and life expectancy plus on a new projection of net migration. It now also presents estimates for the EU-27, whereas the former scenario's contained only the EU-25 countries. Eurostat presents several scenario's but our publication only deals with the so-called **baseline projection**, because this projection is build on the most realistic assumptions given current knowledge. The new results are introduced in sections 2.3.1 en 2.3.2. We will use the hypothetical no-migration scenario in section 2.3.4, but only to indicate the importance of migration assumptions that are present in the baseline projection.

The second reason for an update is an improved method of calculation. Our previous method used the (rather strong) assumption of **constant *total* demand**. Put simply, total demand for goods and services was said not to change between the present and 2050. We now relax this assumption, and instead we assume **constant demand *per capita*** (section 2.3.3). This implies that if the size of the population declines, total demand for goods and services will also decline proportionally (and hence the demand for labour). Not that the size of the total population in EU27 will not change drastically *on average*, but there will be differences *per country*. So in practice we allow demand for labour to rise in countries where the total population grows, and we allow demand to fall where total population decreases. Under this assumption the 'standard of living' will not change, the average individual will maintain exactly his current level of consumption.[15]

[14] More on the financial aspects of ageing can be found in a recent study requested by the European Finance members, see http://ec.europa.eu/economy_finance/thematic_articles/article14761_en.htm.

[15] Only the sum of all individual consumption in a country will be different, but that is not what is important for welfare.

The assumption of **constant labour productivity** is still in place, initially. Some believe productivity to rise exogenously. In the first stage we retain the constant productivity assumption because of the lack of reliable projections of long term (real) labour productivity growth per country. Then (in a sensitivity analysis in section 2.3.6) we show the impact of **different productivity growth scenarios** on the potential employment gap. The same holds for demand per capita: many believe it will rise, but reliable long term projections are nearly impossible to produce. Notice that the two effects have reverse impacts. For example, if both labour productivity and demand per capita grow by 1% yearly, the effects will cancel each other out and the combined effect on labour demand will be zero.

For the interested reader, we will explain our calculation in technical details in the next section. Without reading this technical section, it is still very much possible to pick up the discussion in section 2.4, where we present the results for each country. Finally, we discuss the eligible solutions per country in section 2.5.

2.3 Calculating the potential employment gap (step-by-step)

This section is set up as shown in Table 8 below. First we calculate the potential employment gap under the hypothetical assumption of a **constant total population** (section 2.3.1). This implies that **total demand** is **constant** too. This exercise isolates the effects of ageing on the employment gap.
Next, we allow for **changes in total population**, just as the baseline scenario predicts. To compare this exercise to the one in *Mind the Gap*, we calculate the potential employment gap with **total demand fixed** (section 2.3.2).
The final aim of our calculations however is to insert the assumption of **constant demand per capita.** Combined with changes in total population that means changes in total demand and thus in the demand for labour (section 2.3.3). In section 2.3.4 we discuss the role of migration, in 2.3.5 we summarize the results. In section 2.3.6 we present a sensitivity analysis in which we relax the assumptions of constant demand per capita and constant labour productivity, to see how it influences the outcomes.

Table 8 Assumptions in calculations, step-by-step

	population (labour supply)	(labour) demand
2.3.1 (ageing only)	constant	constant
2.3.2 (baseline old)	baseline	constant
2.3.3 (baseline new)	baseline	proportional to population
2.3.4 (no migration old)	no migration	constant
2.3.4 (no migration new)	no migration	proportional to population
2.3.6 (sensitivity analysis)	*baseline*	*sensitivity analysis*

2.3.1 Population and demand remain constant

To illustrate the principle calculation, we start by assuming that the **population size** remains **constant** over time. As a consequence, this also means that **total demand** remains **constant**. This is of course not the most realistic assumption, but for the moment it serves the explanatory

principle. The only thing that varies in this example is the age distribution, as shown in Figure 24. In this way, we actually isolate the effects of ageing, in both absolute and relative terms.

The effect of a declining working age rate on the potential labour supply is illustrated in Table 9 below. The first column shows the 2008 employment situation. Out of 495 million people in the EU (A) only 67.3% (B) are between the age of 15-64. This amounts to 333 million (C). The employment rate among this available labour force is 66.0% (D), which means that actually 220 million people (E) are currently employed.

In 2050 the working age rate (B) will have dropped from 67.3% to 57.1%, purely as a consequence of ageing. Then the ageing effect translates into an available labour force of only 283 million in 2050 (C) (57.1% of 495 million people). The rest of the population is simply too young or too old to be active on the labour market. If European employment rates would remain at their current levels, this would imply a labour supply of only 187 million (E) (66% of 283 million). Because in this example population size is assumed to remain constant, total demand (for goods and services and hence indirectly for labour) will also remain at the same level. Using these assumptions, the 'potential gap'[16] between labour supply and labour demand will be roughly 33 million people.

Table 9 Calculation of the potential employment gap, EU-27 (method 1).

		supply		demand	difference	to close the gap
		2008	2050	2050	2050	
Population (M)	A:	495.4	constant	constant	constant	
Working age rate 15-64	B:	67.3%	→ 57.1%			
Available labour force (M)	C:	333.2	283.1			283.1
Employment rate	D:	66.0%	66.0%			**77.7%**
Real employment (M)	E:	219.9	186.8	219.9	-33.1 ***(15.1%)***	219.9

Source: SEO calculations based on Europop2008.

Conclusion is that, *all else equal*, we would have to find a solution for the output that is currently created by 33 million employees in the EU27. This is 15% of all 220 million employed. We will discuss potential solutions in section 2.5.

Among other solutions, this potential gap might be closed by raising the employment rate. This is reflected in the rightmost column of Table 9. If on average 77.7% of the new labour force would participate in employment, labour supply would increase to (77.7% x 283 million) 220 million people, thereby again equalling demand. This 77.7% is well above the Lisbon target of 70% and will be hard to achieve in *all* EU-27 countries. However, it does not seem impossible *on average* and might be realistic target for a lot of countries to meet at some point before the year 2050.
We will turn to differences between countries in sections 2.4 and 2.5. First we improve our calculation by relaxing more of the assumptions.

[16] We call it a potential gap because in the calculation we have made some rather strong assumptions. Some of these will be relaxed later on.

2.3.2 Population varies according to baseline projection

So far we have kept total population constant, we will relax this assumption now, and let the population change according to the Eurostat baseline projection while demand is still fixed. This is in line with the method used in our previous publication. In the new baseline projection, the EU-27 population is expected to grow by 4%, totalling 515 million people in 2050. If we add this information to our calculation, it runs as shown in Table 15.

Table 10 Calculation of the potential employment gap, EU-27 (method 2).

		supply		demand	difference	to close the gap
		2008	2050	2050	2050	
Population (M)	A:	495.4 →	515.3	constant		
Working age rate 15-64	B:	67.3% →	57.1%			
Available labour force (M)	C:	333.2	294.4			294.4
Employment rate	D:	66.0%	66.0%			74.7%
Real employment (M)	E:	219.9	194.3	219.9	-25.6 *(11.6%)*	219.9

Source: SEO calculations based on Europop2008.

As mentioned before, if the baseline scenario actually predicts important changes in the population size, it makes sense to allow demand for labour to rise in countries where the total population grows, and to allow demand to fall where total population decreases. That leads us to the next section, where we relax this assumptions.

2.3.3 Demand also varies according to baseline projection (constant *per capita*)

Finally, we only assume constant demand *per capita*, which in fact means that demand is allowed to vary proportionally to the population size. Population is expected to change according to the Eurostat baseline projection. Implicit in the assumption is still a constant (real) labour productivity which we will discuss in more detail in section 2.3.6. Calculation of the potential employment gap under these assumptions is shown in the table below.

Table 11 Calculation of the potential employment gap, EU-27 (method 3).

		supply		demand	difference	to close the gap
		2008	2050	2050	2050	
Population (M)	A:	495.4 →	515.3 (+4%)	+ 4%		
Working age rate 15-64	B:	67.3% →	57.1%	↓		
Available labour force (M)	C:	333.2	294.4			294.4
Employment rate	D:	66.0%	66.0%			**77.7%**
Real employment (M)	E:	219.9	194.3	228.8 (+4%)	-34.5 ***(15.1%)***	228.8

Source: SEO calculations based on Europop2008.

We see that for the relative measures of the potential employment gap, the shifting age distribution is all that matters. Because demand and supply are both relative to the population size, the potential gap in the baseline scenario is 15.1% of total employment needed, which could (among other solutions) be remedied by a rise in the average employment rate from 66% to 77.7%.

2.3.4 The role of migration

What is the role of migration? Can extra labour migration serve as a solution to the potential employment gap? The answer to that question deserves a special section, because migration is already incorporated in the baseline projection, and thus in the potential employment gap calculations. Actually, migration is the most important (and uncertain) factor in the projection. Country differences in migration are much larger than differences in fertility rates or death rates of the current population. In this section we bring the implicit assumptions above the surface by confronting the baseline projection with the hypothetical 'no migration' scenario. That scenario is not a realistic scenario on its own, but it serves the purpose of illustrating which role migration plays in the baseline scenario. [17] It enables us to calculate how migration projections influence the projected population (Table 12) and employment (Table 13).

The left part of Table 12 shows a comparison of each country's population size in 2008 with the 2050 projection in the baseline and no migration scenario, and the growth over this whole period in percentages. The right panel shows the difference between the two projections, which can be interpreted as the implicit net migration between 2008-2050.[18] The rightmost column shows the share of net migration between 2008-2050 (let's call that 'new migrants') as a percentage of the total population in the baseline scenario. [19]

[17] For more detailed background information on the scenarios, we refer to Eurostat (2008) and Berkhout et al. (2007).

[18] To be more precise: this number includes the effect of net migration of people and the higher birthrate of migrants. In this definition, children of migrants are counted as migrants also.

[19] This should not be confused with the 'number of immigrants' in a country, which is a stock variable. The last columns in this table present flow variables: foreigners who are living in the EU in 2008 already are not counted in, but nationals who return to their origin country from outside Europe between 2008-2050 are.

Table 12 Impact of migration in the baseline scenario population (mln. persons)

	Population 2050					net migration 2008-2050	
	2008	baseline	*growth*	nomig	*growth*	absolute	relative
Lithuania	3.4	2.7	*-19%*	2.8	*-17%*	0.0	-2%
Latvia	2.3	1.8	*-20%*	1.8	*-21%*	0.0	0%
Estonia	1.3	1.2	*-12%*	1.2	*-13%*	0.0	1%
Poland	38.1	33.3	*-13%*	32.8	*-14%*	0.5	1%
Bulgaria	7.6	5.9	*-22%*	5.8	*-24%*	0.1	2%
Romania	21.4	18.1	*-15%*	17.8	*-17%*	0.3	2%
Slovakia	5.4	4.9	*-10%*	4.6	*-14%*	0.2	4%
Netherlands	16.4	16.9	*+3%*	15.8	*-3%*	1.1	6%
Finland	5.3	5.4	*+3%*	5.1	*-4%*	0.4	7%
France	61.9	71.0	*+15%*	65.5	*+6%*	5.5	8%
Denmark	5.5	5.9	*+8%*	5.4	*-2%*	0.5	9%
Hungary	10.0	9.1	*-10%*	8.1	*-20%*	1.0	11%
Slovenia	2.0	1.9	*-7%*	1.7	*-18%*	0.2	12%
Malta	0.4	0.4	*+1%*	0.4	*-12%*	0.1	13%
Czech Rep.	10.3	9.9	*-4%*	8.6	*-17%*	1.3	13%
Germany	82.2	74.5	*-9%*	64.3	*-22%*	10.2	14%
Sweden	9.2	10.7	*+16%*	9.1	*-1%*	1.6	15%
UK	61.3	74.5	*+22%*	62.1	*+1%*	12.4	17%
Belgium	10.7	12.2	*+14%*	10.1	*-5%*	2.1	17%
Greece	11.2	11.4	*+2%*	9.4	*-16%*	2.1	18%
Ireland	4.4	6.5	*+48%*	5.3	*+19%*	1.3	19%
Italy	59.5	61.2	*+3%*	48.5	*-19%*	12.8	21%
Austria	8.3	9.1	*+10%*	7.2	*-14%*	1.9	21%
Portugal	10.6	11.4	*+8%*	9.0	*-15%*	2.5	21%
Spain	45.3	53.2	*+18%*	40.2	*-11%*	13.0	24%
Luxembourg	0.5	0.7	*+45%*	0.5	*-3%*	0.2	33%
Cyprus	0.8	1.3	*+57%*	0.8	*1%*	0.5	36%
EU-27	**495.4**	**515.3**	*4%*	**443.7**	*-10%*	**71.6**	**14%**

Source: SEO calculations based on Eurostat (EUROPOP 2008).

Migration in this definition is '*net* migration', that is the sum of people moving into the country (immigrants) and people moving out (emigrants). An important share of these migration flows are intra-EU flows, but migration flows to and from non-EU countries are also important. In fact, the EU-27 total on the last row presents '*net net* migration', which means the net sum of total migration from non-EU countries into the EU between 2008 and 2050.

What does this table tell us? Firstly, it shows that in every country except Lithuania net migration is projected to be positive over the period 2008-2050. Secondly, it tells us that the baseline scenario is build upon the assumption of roughly 70 million net migration in these four decades. More people will move from outside Europe into the EU than the other way around. Note that this need not all be non-EU nationals: it will also concern people born in the EU but living abroad, who return to their home country somewhere between 2008-2050. Thirdly, within Europe net migration is obviously higher in the Southern- & Western European countries than it is in Eastern Europe. Finally, the table shows that in the baseline projection 14% of the EU population in 2050 is expected to consist of 'new migrants': people who where not living in the EU in 2008 plus their children.

What does this mean for the labour market? Obviously, without migration, labour supply would be less. This is reflected in the left panel Table 13, which shows a comparison of each country's

employment supply in 2008 with the 2050 projection in the baseline and no migration scenario. The (mostly negative) growth over this whole period is shown in absolute values.[20] The right panel shows the difference between the two projections, which can be interpreted as the implicit net migration of labour between 2008-2050. The rightmost column shows the share of net labour migration between 2008-2050 as a percentage of the total employment in the baseline scenario.

Table 13 Impact of migration in the baseline employment (mln. persons)

	Employment supply 2050					Immigrated labour 2008-2050	
	2008	baseline	*diff.*	nomig	*diff.*	absolute	relative
Lithuania	1.5	1.0	*-0.5*	1.1	*-0.4*	0.0	-3%
Latvia	1.1	0.7	*-0.4*	0.7	*-0.4*	0.0	0%
Estonia	0.6	0.5	*-0.2*	0.5	*-0.2*	0.0	2%
Poland	16.0	11.1	*-4.8*	10.9	*-5.0*	0.2	2%
Romania	8.9	6.2	*-2.7*	6.1	*-2.9*	0.2	2%
Bulgaria	3.4	2.1	*-1.2*	2.1	*-1.3*	0.1	3%
Slovakia	2.4	1.7	*-0.7*	1.6	*-0.8*	0.1	5%
Finland	2.6	2.3	*-0.3*	2.1	*-0.5*	0.2	8%
France	26.3	26.6	*0.3*	24.0	*-2.2*	2.5	9%
Netherlands	8.5	7.6	*-0.9*	6.9	*-1.6*	0.7	10%
Denmark	2.8	2.7	*-0.1*	2.4	*-0.4*	0.3	12%
Hungary	3.9	3.0	*-0.9*	2.6	*-1.3*	0.4	13%
Slovenia	1.0	0.7	*-0.3*	0.6	*-0.4*	0.1	15%
Malta	0.2	0.1	*0.0*	0.1	*0.0*	0.0	16%
Czech Republic	4.9	3.7	*-1.2*	3.1	*-1.8*	0.6	17%
Sweden	4.5	4.7	*0.2*	3.9	*-0.7*	0.9	18%
Germany	38.3	29.4	*-8.8*	24.0	*-14.3*	5.5	19%
Belgium	4.4	4.4	*0.1*	3.5	*-0.9*	0.9	21%
United Kingdom	29.1	32.3	*3.1*	25.2	*-3.9*	7.1	22%
Ireland	2.1	2.6	*0.6*	2.0	*0.0*	0.6	23%
Greece	4.7	3.9	*-0.7*	3.0	*-1.7*	0.9	23%
Portugal	4.9	4.5	*-0.4*	3.3	*-1.6*	1.2	27%
Italy	23.2	20.0	*-3.3*	14.5	*-8.7*	5.4	27%
Austria	4.1	3.8	*-0.2*	2.8	*-1.3*	1.1	28%
Spain	20.2	18.9	*-1.3*	13.1	*-7.1*	5.8	31%
Luxembourg	0.2	0.3	*0.1*	0.2	*0.0*	0.1	39%
Cyprus	0.4	0.5	*0.2*	0.3	*-0.1*	0.2	42%
EU27	**219.9**	**194.3**	***-25.6***	**159.7**	***-60.3***	**34.7**	**18%**

Source: SEO calculations based on Eurostat (EUROPOP 2008).

While the pattern is similar to Table 12, the implicit role of migration in employment is larger than the implicit role in population because migrants are more often of working age 15-64. Of all employees in the EU-27 in 2050, 18% will have come from outside the EU somewhere since 2008. In Austria and the Mediterranean countries migration plays an even more important role in the next decades.

Table 13 again shows that employment in 2050 will have dropped by more than 25 million under the baseline scenario, from 219.9 to 194.3. From that 2050 labour force of 194 million people, nearly 35 million will be new migrants. Without these labour migrants, the labour supply will be only 160 million, which is 60 million less than the labour supply of 2008.

[20] Therefor the individual country numbers in this table are comparable with Table 3.7 in 'Mind the Gap' (Berkhout et al, 2007).

However, that does not mean that the employment gap without migration would also be 60 million. In our updated calculation we now have to account for the drop in demand as well (see section 2.3.3). Because without the new migrants demand for labour will be lower as well, only not proportionally to labour supply. This means that without migration, quantitative labour market frictions will be more prominent, as we demonstrate in Table 14.

Table 14 Calculation of the potential employment gap, EU-27 ('no migration' scenario, new).

		supply		demand	difference	to close the gap
		2008	2050	2050	2050	
Population (M)	A:	495.4	→ 443.7 (-10%)	-10%		
Working age rate 15-64	B:	67.3%	→ 54.5%			
Available labour force (M)	C:	333.2	241.9			241.9
Employment rate	D:	66.0%	66.0%			**81.4%**
Real employment (M)	E:	219.9	159.7	197.0	-37.3 ***(18.9%)***	197.0

Source: SEO calculations based on Europop2008.

No migration would mean less population growth (-10% instead of +4%). But in this smaller population the absence of migration would also mean a lower share of people in the working age (54.5% instead of 57.1%). In other words: without migration the ageing effect will be larger, because most migrants are between 15-64. Without the new migrants, the share of elderly will be even bigger than in the baseline projection shown in Figure 24. The effect of the population decline is offset by a proportional decline in demand (because we would have 'less mouth to feed') but the lower working age rate would not be offset. It would indicate an even bigger gap between supply and demand: 37.3 million people out of a total employment demand of 197 million means a potential employment gap of 18.9% of employment needed. The average employment rate should rise from 66% to 81.4% in order to close this gap on its own.

Finally, we return to the question if migration can be a solution to our potential employment gap. The strict answer is no, but only because the effect of migration has been discounted already. In fact, migration *is already a solution*! Migration is a prerequisite (for the potential employment gap not being larger), not an extra solution. As such, migration is a very important component, because without migration the potential employment gap would be even wider. However, within Europe migration is much more prominent in the South and West, which suggests that maybe in Eastern Europe higher net migration (than currently projected) might be a solution. That may be effectuated with more immigration of foreigners, more remigration of nationals living abroad, or just as well with lower emigration of current citizens.

What is not explicitly incorporated in our calculations, but just as well important, is the qualitative match (see also the theoretical framework in 2.5.1). Intra-EU labour migration as well as many types of extra-EU migration are very important for matching the labour supply to the *requested type* of labour. Such migration functions as the grease that lets the wheel of the economy move freely. Without migration, qualitative mismatches will be much higher, and so will be unemployment. More unfulfilled vacancies will exist along with higher unemployment. On the longer term, as long as (foreign) labour is allowed to move to countries where vacancies are abundant, it reduces the need for offshoring production capacity to those countries where labour

is abundant. All in all, migration is an essential element of our modern economies, from which everyone can benefit.

2.3.5 Summarizing potential employment gap calculations

Table 15 briefly summarizes the potential employment gap for all the different methods and scenario's that we mention in the previous sections. The row beginning with 'Ageing effect only' refers to the calculations made in section 2.3.1. Recall that under the hypothetical assumption of a fixed population and a fixed total demand, the potential employment gap was 33.1 million people. This amounts to 15% of total employment in 2050 and could be remedied with an overall employment rate of 77.7%. For comparability reasons, we also included the employment gaps as would be produced using the old method, both for the baseline scenario (see 2.3.2) and the no-migration scenario (see previous section).

The last two rows, printed in bold, present the updated employment gap calculations. The **baseline projection** calculation in row 4 differs from the calculations in the first row through a 4% increase of the total population size. With constant demand per capita, this is reflected in a larger supply as well as a larger demand. It therefore only affects the *absolute* size of the employment gap, the *relative* size of the employment gap is not affected. Also in the baseline scenario an employment rate of 77.7% will close the potential employment gap.

The last rows concern the (hypothetical) **no migration** scenario. Because migrants are more often of working age, disallowing immigration leads to a smaller potential labour force. This means that a larger share of the potential labour force has to be activated, until an employment rate of 81.4% is reached. In other words, disallowing immigration worsens the ageing effect, because the balance between the working age population and the non-working-age population will worsen.[21] Notice that migration flows may differ widely between countries.

Table 15 Potential employment gap 2050 in absolute and relative terms, EU27

	total demand *(million)*	Gap in # persons *(million)*	Gap as % of total demand	Employment rate needed to close potential gap
Ageing effect only	220	33.1	15.1%	77.7%
Baseline (old)	220	25.6	11.6%	74.7%
No migration (old)	220	60.3	27.4%	90.9%
Baseline (new)	**229**	**34.5**	**15.1%**	**77.7%**
No migration (new)	**197**	**37.3**	**18.9%**	**81.4%**

Source: SEO calculations based on Eurostat (EUROPOP 2008).

Potential employment gaps can be calculated for different points in time. To illustrate, Table 16 shows the potential employment gap calculations for 2025. Labour market frictions will not wait to happen until 2050, they will develop gradually. Although their average impact in 2025 may not be very dramatic, some countries already face an important challenge (see also Section 2.4).

[21] The implicit assumption here is that in the baseline scenario migrant supply fits the demanded type of labour exactly.

Table 16 Potential employment gap 2025 in absolute and relative terms, EU27

	total demand *(million)*	Gap in # persons *(million)*	Gap as % of total demand	Employment rate needed to close potential gap
Baseline (new)	230	13.5	5.9%	70.1%
No migration (new)	217	14.6	6.7%	70.7%

Source: SEO calculations based on Eurostat (EUROPOP 2008, lfsq_ergan).

2.3.6 Sensitivity analysis: changing demand and productivity

In the section 2.3.3 we arrived at the baseline scenario calculation being the most plausible. There we assumed demand (for goods and services) to be constant per capita. However, this implicitly means **constant (real) labour productivity** and **no exogenous (real) GDP per capita growth**.[22,23] In this section, we illustrate what happens if these assumptions are not met. Table 17 shows the resulting potential employment gaps of several examples. [24]

If labour productivity rises at a faster rate than demand for goods and services per capita, the employment gap will be smaller (or not exist at all): see the first three rows of the table. If the opposite occurs, the employment gap will get bigger: see the last three rows of the table.
If productivity growth equals the growth of demand for goods and services per capita (middle row) we are back at the baseline projection results of the previous section.[25] In fact, our assumption therefore needs not to be as strict as formulated before: labour productivity and GDP per capita growth need not be zero, as long as their magnitude is the same the results will be similar to the ones in our calculation method.

[22] Labour productivity in the economic sense is a measure of the amount of output one worker produces. It is usually calculated as (total GDP / number of workers). *Real* labour productivity means after correction for inflation. Real GDP per capita growth is what can be seen as 'economic growth' in the sense of the average person being able to consume more goods/services than he did last year. It relates to nominal GDP growth after correction for population growth ('per capita') and for inflation ('real').

[23] To be more precise, the two variables do not exactly need to be zero. The argument is similar if only productivity and GDP growth are of the same magnitude.

[24] The numbers used in this example are only illustrative. For realistic assumptions at least national estimates should be used, and one should calculate demand growth *per capita*. Productivity growth should be analysed preferably on a sectoral level. Sectoral labour shifts may influence labour productivity.

[25] Results may be different if demand rises for goods and services in some sectors of the economy and labour productivity rises in other sectors.

Table 17 Potential employment gap 2050 with different demand & productivity parameters, EU27 baseline projection

labour productivity	total GDP per capita	In number of persons *(million)*	As % of total employment needed	Employment rate needed to close gap
0.2% yearly	constant	16.0	7.6%	71.4%
0.8% yearly	0.6% yearly	16.1	7.7%	71.5%
1.0% yearly	0.7% yearly	7.6	3.8%	68.6%
productivity growth equal to GDP per capita growth	=	outcomes equal to baseline projection:		
		34.5	15.1%	77.7%
constant	0.2% yearly	54.5	21.9%	84.5%
0.6% yearly	0.8% yearly	54.4	21.9%	84.5%
0.7% yearly	1.0% yearly	64.9	25.0%	88.0%

Source: SEO calculations based on Eurostat (EUROPOP 2008, lfsq_ergan).

Unfortunately, it is clear that the size (and even the existence) of the employment gap is sensitive to assumptions about changes in labour productivity and in the demand for goods and services per capita. As the above table shows, small (yearly) changes can have large consequences for the employment gap.[26] Historically, productivity increases may have led directly to increases in GDP per capita, but in the future productivity increases might be needed simply to replace the outflow of labour ('fill the employment gap') in order to keep GDP per capita at a constant level.

Although the most realistic 'mix' of changes in labour productivity and demand per capita is hard to predict, the publication of Cedefop's medium-term forecast of future skills needs (Cedefop, 2008) may give some underpinning. Cedefop projects labour demand to grow faster than labour productivity, such that a net additional demand for labour will arise. This complies with the scenario's in the bottom part of Table 17. In Cedefop's projections, the sectoral shift from manufacturing to services will probably have a negative impact on average labour productivity.[27]

To what extent every assumption is realistic, depends largely on the country and economic sector at hand. Therefore we elaborate on the situation per country in the next section. Furthermore, our 'potential employment gap' exercise' only looks at quantitative mismatches on the labour market. Next to this, qualitative mismatches will be an empirical fact as well, and should also be dealt with. We address that in section 2.5.1.

2.4 Future frictions by country

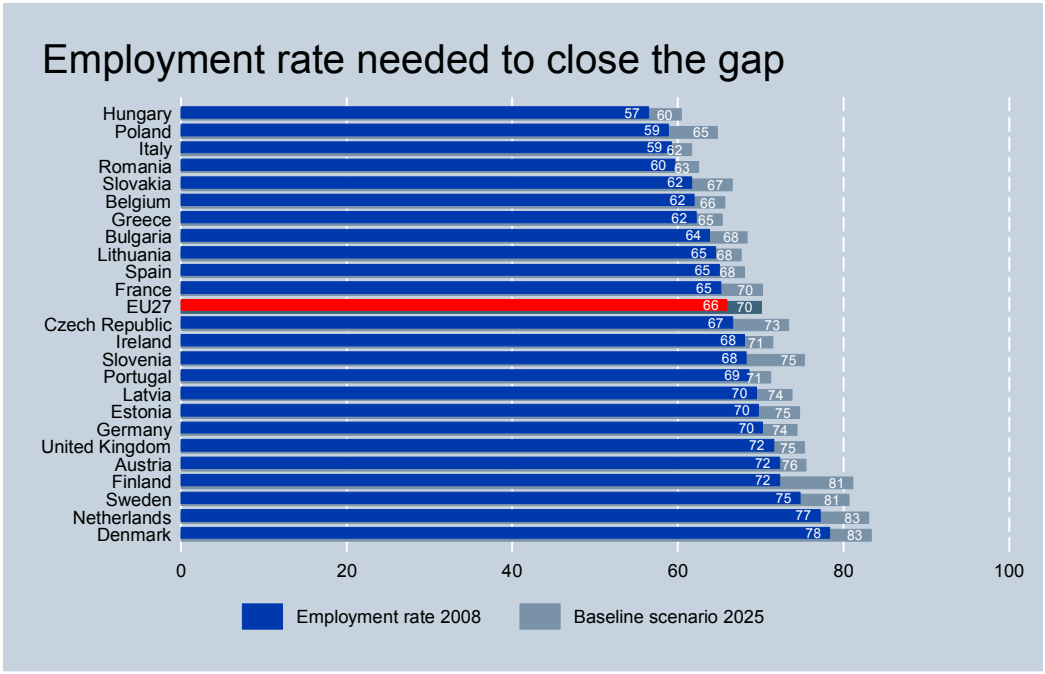
Figure 25 repeats our calculations, but now for each country separately.[28] Assuming constant demand per capita, population development along the baseline projection, and constant labour productivity, Figure 25 shows how much employment participation among people aged 15-64 should increase if it is to close the potential gap all by itself, in 2025 and in 2050.

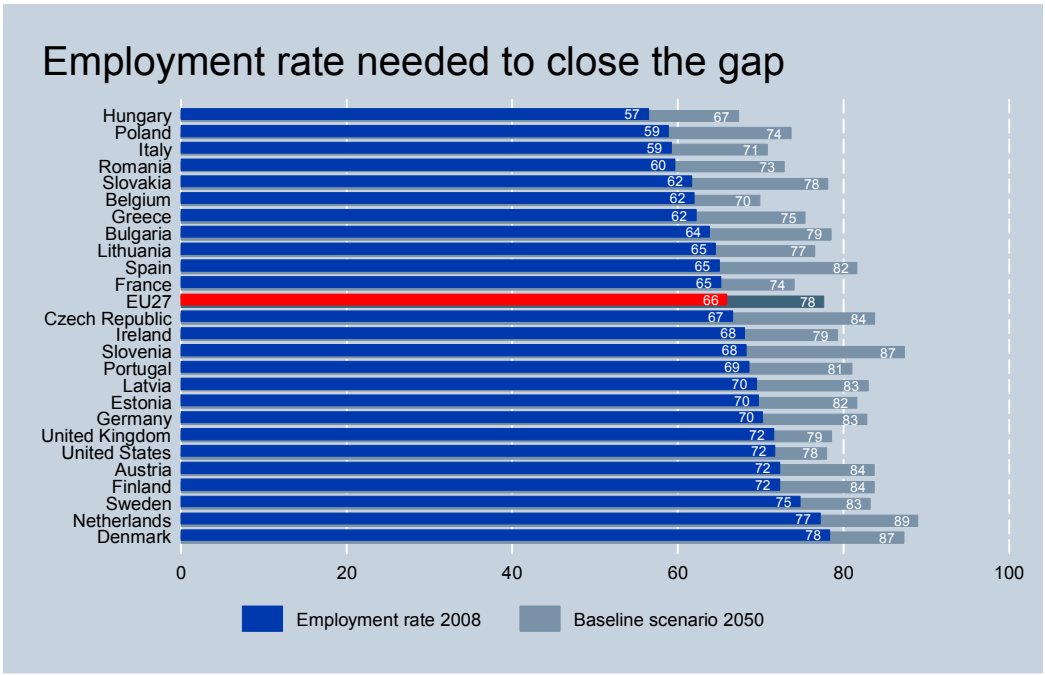
[26] Large differences between labour productivity growth and growth in demand per capita are not to be expected, because there is a relation (although not one to one) between productivity growth and growth in demand per capita.

[27] The Cedefop scenario's are calculated by Cambridge Economics, using the econometric model E3ME (see www.e3me.com for details). This model differentiates over 40 different economic sectors per country. However, the growth rates are only projected until the year 2015.

[28] See section 2.3 for detailed discussion of the method used

Figure 25 Potential employment gap widens between 2025 and 2050





Source: SEO calculations based on Eurostat (EUROPOP 2008, lfsq_ergan).

Within the European Union, the employment rate is currently highest in Denmark and the Netherlands, with levels close to 80%. Suppose that each country will, in the long term, be able to increase their employment participation levels to this level. Would that solve their employment gaps, or not? Table 20 shows the answer. The first column presents the employment rate of each country. The second column shows how high the employment rate should get if it is to solve the employment gap (on it's own). The fourth column gives the new reference value of 80%.

Table 18 How far can each country get if it reaches 80% employment?

	Employment rate 2008	target if employment rate is to solve gap in 2050	new reference 2050	is that enough to 'close the gap'?	remaining gap (%-points)
Austria	72.3	83.7	80	no	3.7
Belgium	62.0	69.9	80	yes	
Germany	70.3	82.8	80	no	2.8
Denmark	78.4	87.3	80	no	7.3
Spain	65.0	81.7	80	no	1.7
Finland	72.3	83.7	80	no	3.7
France	65.2	74.1	80	yes	
Greece	62.2	75.4	80	yes	
Ireland	68.1	79.3	80	yes	
Italy	59.2	70.8	80	yes	
Netherlands	77.2	89.1	80	no	9.1
Portugal	68.6	81.1	80	no	1.1
Sweden	74.8	83.3	80	no	3.3
UK	71.6	78.6	80	yes	
Czech Rep.	66.6	83.9	80	no	3.9
Estonia	69.8	81.7	80	no	1.7
Hungary	56.5	67.3	80	yes	
Lithuania	64.6	76.6	80	yes	
Latvia	69.5	83.0	80	no	3.0
Poland	58.9	73.7	80	yes	
Slovenia	68.3	87.4	80	no	7.4
Slovakia	61.7	78.2	80	yes	
Bulgaria	63.9	78.5	80	yes	
Romania	59.7	72.8	80	yes	
EU27	66.0	77.7	80	yes	

Source: SEO calculations based on Eurostat (EUROPOP 2008, lfsq_ergan).

Comparing the fourth column with the third gives some indication as to how much the employment rate can do to close the employment gap. For example, if Finland would succeed to achieve 80% employment, this is by no means enough to close the gap. So, either a lot has to change in terms of labour participation (being like the best in Europe is not enough), and/or other parameters will need to change too.

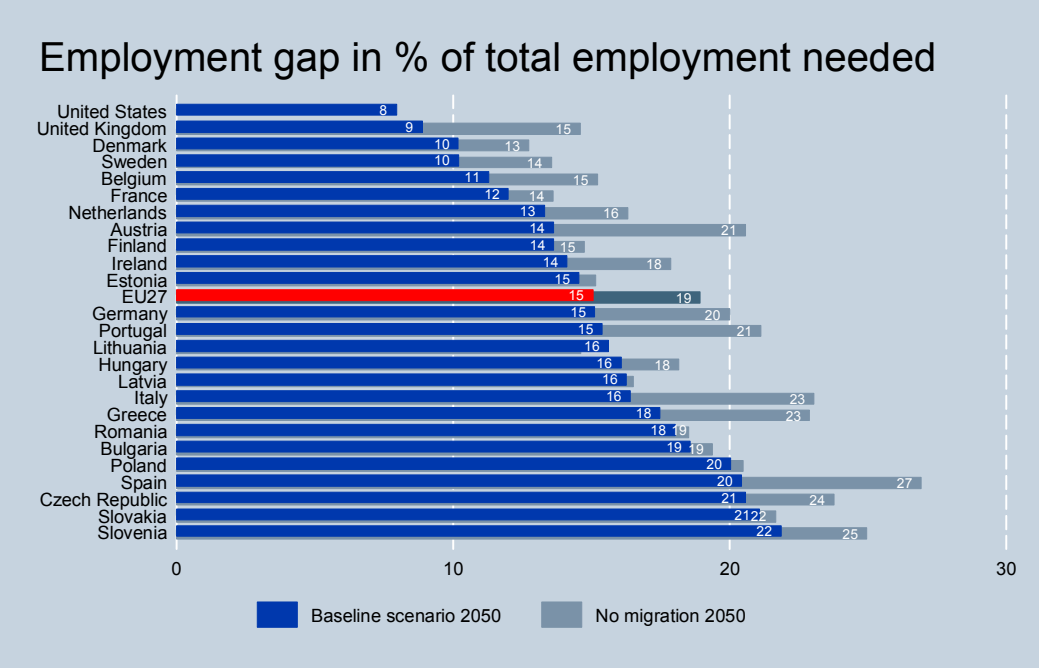
What we also see here is the 'curse of the leaders': once you are in front, there is not much to gain anymore (but a lot to lose). Because Denmark and the Netherlands have high participation levels already, increasing their levels to the new target won't help them anymore. The higher numbers in the 'remaining gap' column should therefore not be too worrying. They merely indicate that for these countries either a higher reference level of participation should be striven for, or that other solutions should be developed. In the next section we will turn to potential solutions to close the gap.

The importance of migration

To get an impression of the implicit contribution of labour migration between 2008-2050 per country, look at Figure 26. The blue bars present the potential employment gap (the shortfall of labour supply), shown as the percentage of employment demand. As demonstrated before, the EU-27 average is 15.1%. In most Eastern and Southern European countries the shortfall is bigger, in most Western EU countries it is smaller. The relatively favourable position of the UK

(9%) and Austria (14%) is due to relatively large net migration. The grey bars show that, without any kind of migration during the 2008-2050 period, their potential employment gaps would have been six to seven percentage points higher. Also in Germany, Portugal, Italy, Greece and Spain future migration will play an important role in reducing quantitative labour market frictions.

Figure 26 Relative employment gap, by country, baseline & no migration, 2050



Source: SEO calculations based on Eurostat (EUROPOP 2008, lfsq_ergan).

Since the EU enlargement, temporary migration is rapidly gaining importance, and has become a flexible form of adjustment to potential labour market frictions. Many labourers from the new EU Member countries quickly adapt their supply of labour by travelling to there where labour demand is highest and vacancies are abundant. But that is only intra-EU migration, with mostly a non-structural character. It surely helps to 'grease the wheel' and to reduce qualitative mismatches of labour, but it will not help to fulfil the more structural potential gap in the EU-27 as a whole. Migration of labour from outside the EU is a second essential element of a dynamic labour market, as shown in section 2.3.4. Extra-EU migration can and should be arranged so as to be beneficial to both the host country and the immigrant.

Unfortunately the less successful migration experience from the past decades, mostly due to unsuccessful integration of migrant groups in the Western society, often still prohibits a serious analysis of the current migration. Migration policy is often trapped in a much too emotional debate, based on populist statements instead of serious arguments. The acknowledgement of the 'modern migrant' is essential to a good understanding of the different characteristics of migration nowadays. What is important is that it makes perfect economic sense to attract the immigrants who supply the skills that our labour markets need, and that immigration policy reduces the physical and cultural distance between immigrant and host country.

Bloom et al. (2009) confirm that migration alone cannot solve the problem of falling working-shares in Western European countries in the next decades. It does however play a very important role. Migration should always be part of the European labour market policy mix, because without migration labour market tensions will be even bigger than currently projected. It is an essential element of our modern economies, from which everyone can benefit.

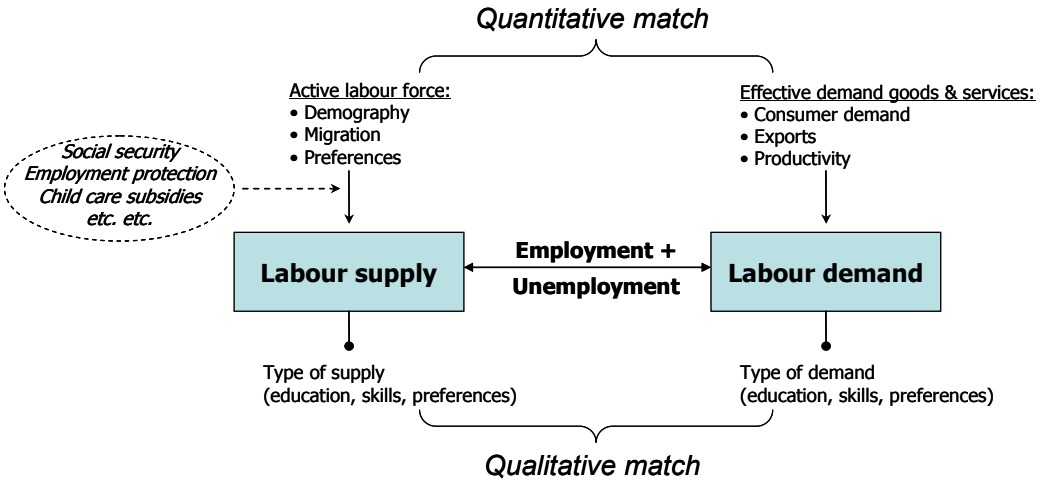
2.5 Closing the potential gap

In this section, we will first provide a framework for discussing labour supply and labour demand effects. Next, we will turn to theoretical options to close the potential employment gap. Lastly, we will focus on the options that seem realistic in practice and discuss the room for improvement per country.

2.5.1 Framework: labour supply and labour demand

Over the years, European labour markets have become more and more dynamic, with more types of contractual arrangements, and more complex and more frequent transitions. To illustrate the various ways the employment gap can be tackled, we use the analytical framework of Figure 2.1. This Figure shows a simplified, and somewhat modified, version based on Schmid & Modrack (2008).[29]

Figure 27 An analytical framework of employment dynamics



In general terms, as have seen earlier in this chapter, labour supply will decline in the coming years. Demography (an ageing population) will negatively affect labour supply, and migration can only offset a small portion of this. Theoretically, the decline in labour supply could be matched to labour demand by stimulating *productivity*, in which case labour demand will decrease, too. There are at least two good reasons why relying on such a strategy alone is not enough. First, productivity growth may not be 'skills neutral'. For parts of the population, it may actually lead to increased unemployment, while there is still an overall shortage of labour. Cedefop (2008) estimates that by 2015, the share of jobs with low qualification levels will have fallen to 21% (1996: 33%; 2006: 26%), while the share of jobs with high qualification levels will have risen to 29% (1996: 21%; 2006: 25%). So, even if labour demand should equal labour supply (a 'quantitative match'), some people may be unable to find a job. They may not have the education and skills required to do the work (a 'qualitative mismatch'). Or people may be tied to different sectors than those where vacancies are available. The obvious, but not simple, solution is to improve the competencies of those people, and accommodate necessary sectoral shifts of labour.

[29] Günther Schmid & Simone Modrack (2008), Employment Dynamics in Germany: Lessons to be learned from the Hartz reforms, WZB Discussion Paper, Order number: SP I 2008-102.

In section 5.3 we will argue that private employment agencies can play an important role here, for several reasons.

Secondly, and perhaps even more importantly, labour demand is *not* expected to fall at all. Although productivity growth may help lower labour demand, an increase in consumer demand and exports will probably override any advances made.

In the whole story, wage effects will act as a partial correcting force. If labour becomes more scarce, wages will go up, which may stimulate participation. This also applies to the skills premium[30]. Higher wages in jobs with higher qualification levels may stimulate more people choosing a higher education degree. Insofar as existing institutional settings impair increases in labour participation, wage effects alone cannot be enough. Also, notice that the individual decision to participate depends on the *net* wage, amongst others, while the effect on society is larger. Individual decisions do not incorporate the effects on others in society. So, to sum up, although wage effects may partially correct imbalances, they cannot solve these completely. This implies that there is still a role for policies that (further) stimulate labour participation.

2.5.2 Closing the gap: theoretical options

As we have discussed in section 3.1, potential employment gaps subsist in all EU27 countries. Countries who face the largest challenge are the ones with older populations and/or low net migration (see Figure 26: Spain and most Eastern European countries). Several policy options might be considered, in theory. The usefulness, eligibility and effectivity of those options will differ strongly between countries and between the different sectors of economies. There may be structural economic differences, but finding the optimal mix is also subject to national preferences and traditions. A 'one size fits all' policy solution is not available. Here, we briefly discuss and weigh the options in turn.

Stimulating population growth

Although stimulating population growth is still suggested now and then, it is clearly not sustainable in the long run and will only make things worse. Even if it would be possible to stimulate population growth, that would only be effective after 25 years, and after 60 years the problem will have returned on a much larger scale. This option should not be promoted.

Increasing employment participation

Increasing employment may be achieved basically in three ways:

- More people may decide to enter the labour force (raising the employment rate).
- Elderly employed may decide to take pensions at a later age, or take part-time pensions.
- Employed people may decide to work more hours (increasing the number of hours worked).

The latter of course does not raise the employment rate as officially measured, but it does stimulate the economic output per employee and therefore decrease the potential employment imbalance.

Increasing real labour productivity

Increasing productivity was always an efficient and realistic option in the manufacturing and the agricultural sector. However, increases in productivity are harder to achieve in labour-intensive

[30] For example, in the US the growth in the relative demand for more educated workers, together with fluctuations in the supply of skills, goes a long way in explaining the evolution of wage differentials (Goldin & Katz (2007)).

service sectors, which are the growing sectors. Not that service sectors do not experience productivity gains, it's more that these increases might not be skills neutral (see Cedefop, 2008) and that such increases might not be able to keep up with rising consumer demand and exports (see previous section). Productivity might also increase by labour moving from lower-paying sectors to higher-paying sectors (more productive sectors). This of course will not bridge the overall employment gap, but merely shift labour from one sector to another while increasing overall productivity.

Lower GDP

If a combination of possible solutions - especially increasing productivity growth and employment participation - does *not* solve the employment imbalances, GDP per capita will fall. For economists however, that outcome is not to be preferred, so the mentioned combination *must* solve the imbalance.

In the next section we will discuss the room for improvement per country when it comes to participation rates, hours worked and productivity increases. In Chapter 4 we will elaborate on the empirical effectiveness of some policy options aimed at increasing employment participation.

2.5.3 Closing the gap in practice: solutions per country

To investigate the eligibility of the arguments mentioned above, we present a numerical exercise in this section. The exercise is based on reference values, constructed to mirror maybe ambitious but at least for many countries achievable levels of employment participation, working hours and productivity. The reference levels are set so that some countries have already reached them in 2008, or are very close. The assumption is that convergence will take place in the longer term, between now and 2050. Which means in fact that the countries that are lagging behind yet will catch up in some way. In the rest of this section, we discuss the eligibility of each solution for the individual countries. The reference values are shown in the last line of Table 19. The rest of the table shows the deviation of each country from these references: how far below is their current situation? Or in other words: how much is there to be gained, if convergence to the reference would take place indeed?

For employment participation we chose a reference value of 80%, for both men and women. This is the current level for Danish & Dutch males; Danish, Dutch and Swedish females are close to this level. As we have seen in Chapter 1, female employment in these countries is already above 70%. Employment among elderly tells a different story (see section 1.4): differences between countries are huge and on average employment is much lower. Therefore, 60% is a more realistic target here. That is below outlier Sweden, but still quite a challenge for most other countries like Belgium, France, Italy and the larger New Member States. As for the average length of a salaried employee's working week 38 hours seems a realistic target, given that the New Member States will probably converge to the Western European average during the next decades. The reference value for productivity is set at 55 $ of GDP per hour for each person employed, measured in 2007 US$. This level is comparable to the present Belgian and Irish situation.

Table 19 Possible solutions per country: how far beneath reference values?

	Employment rate (%-points)			Hours per week	Productivity (GDP/hour, 2007, US$)
	men	women	elderly		
Austria	1	14	19	1	10
Belgium	12	24	27	2	0
Germany	4	15	6	3	2
Denmark	above	6	-	4	12
Spain	6	25	14	equal	13
Finland	5	10	-	1	12
France	10	19	22	1	2
Greece	5	31	17	above	24
Ireland	4	20	6	3	*above*
Italy	9	33	25	1	16
Netherlands	above	9	7	8	1
Portugal	6	17	9	equal	28
Sweden	3	8	above	2	9
United Kingdom	3	14	-	1	11
Czech Republic	5	22	12	above	31
Estonia	6	14	above	above	
Hungary	17	30	29	above	31
Lithuania	12	19	-	above	
Latvia	7	14	-	above	
Poland	14	28	28	above	35
Slovenia	7	16	26	above	
Slovakia	11	26	22	above	27
Bulgaria	12	21	14	above	
Romania	14	27	16	above	
reference	**80**	**80**	**60**	**38**	**55**

Source: SEO calculations based on Eurostat (lfsq_ergan; lfsq_ewhun2), OECD (Labour Productivity Total Economy; Productivity Levels and GDP per capita).

Employment participation

Table 19 shows how much each country deviates from the reference value. For example, the employment rate in Austria is 1 percentage points lower than the reference value of 80% for men, and 14 percentage points lower for women. That sounds as a realistic target, which could be achieved well within the next forty years. But we have demonstrated in Table 18 that for Austria matching the current EU maximum participation level will not be a sufficient solution. In others words: employment participation in Austria is already quite high, and other solutions should be investigated as well. Belgium however is a different example: employment rates are well below the current maximum, so there should be room for improvement here. Table 18 showed that raising employment to the reference value is more than enough for Belgium to maintain their current economic standards under the baseline ageing scenario.

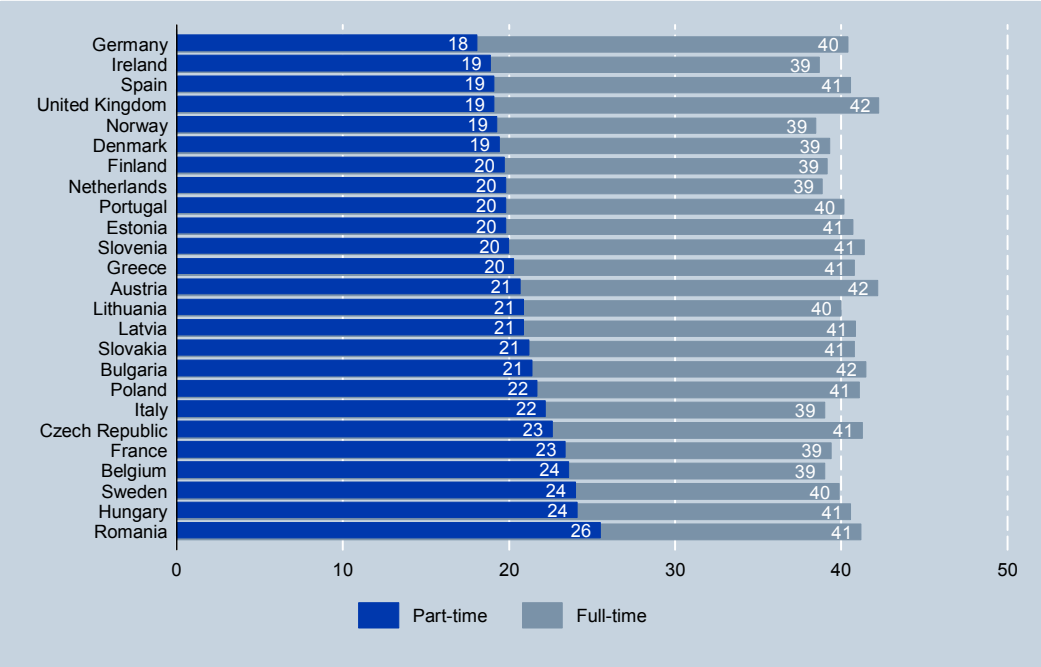
In the case of Austria the participation of elderly for example is 19 percentage points beneath the reference (which is set at 60%). Although we did not analyze the correlation between employment rate by sex and by age, it is clear that next to an average employment rate increase of 1 percentage point for men and 14 for women, there is room for an extra increase among the elderly.

The columns in the right panel of Table 19 show additional possible solutions: increasing the number of hours worked and increasing productivity.

Average working hours

As Figure 28 below shows, large differences in working hours *among full-timers* do not exist, all full-time workers have working weeks of usually 39-42 hours, even in the Netherlands.[31] That implicates that differences in average hours are due to differences in the share of part-time workers. Which also implies that a possible solution is not to increase working weeks for the full-time employees, but to seduce part-timers to increase their hours or maybe even become full-timers.

Figure 28 Usual weekly working hours, for full-timers and part-timers.



Source: Eurostat LFS (lfsq_ewhun2, 2009).

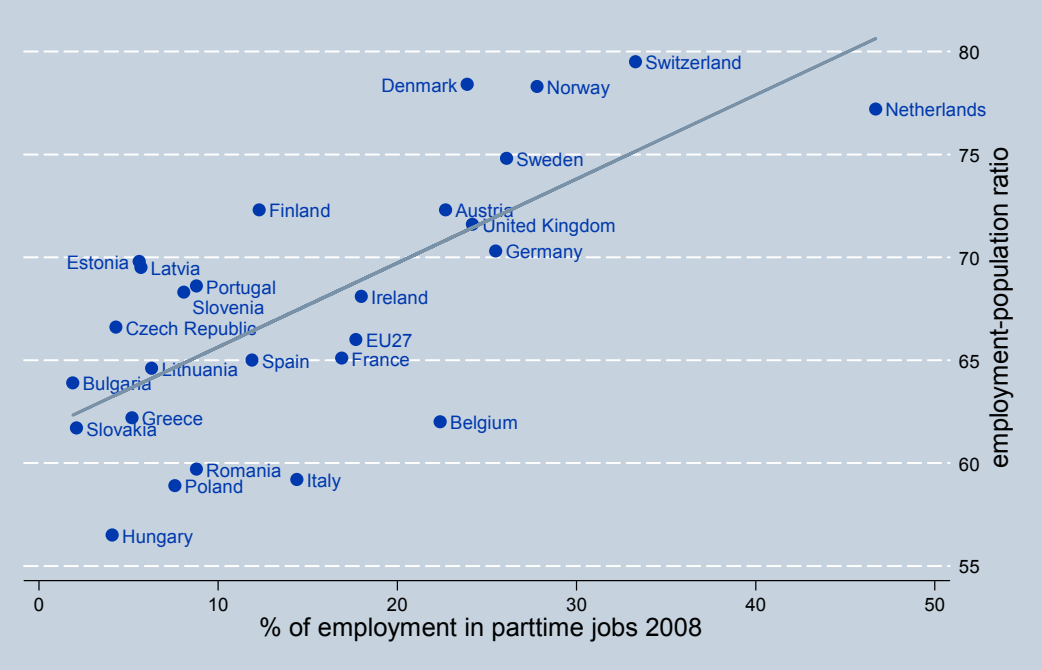
But in many cases, especially women are working part-time deliberately, not so much for economic reasons but more often for social reasons; that is to strike a balance between working life and family life. In fact, in countries like the Netherlands and Belgium it will be difficult to increase the average hours/week, as the pattern of diminishing working hours is a persistent long-term trend, which is not only driven by economic but also by sociological factors. On the other hand, we will show in section 5.1.1 that in countries like Denmark, UK and Norway the share of part-time among women aged 25-59 did actually fall.

Regarding the increase of participation, one might also argue the other way round, and state that a lot of the rise in participation is due to the possibility of part-time jobs, which seduced a lot of households to participate with both members. Last decennia some countries faced a transition from the standard 'bread-winner household' to modern '1.5 jobs per family' households, gaining popularity among young families with children. Figure 29 demonstrates that at least there is a strong correlation between employment participation and the possibility to work part-time. Although the exact causality can not be read from this graph, it suggests that the countries in the upper right have extended their labour markets by offering more part-time opportunities. In

[31] The averages are calculated for salaried employees, so they do not include self-employed and family workers.

Chapter 6 professor Schmid will argue in a similar way, stating that part-time work was the main driver of participation in the last decade.

Figure 29 Correlation between part-time jobs and employment participation



Source: Eurostat LFS (lfsq_eppga, lfsq_ergan, 2009).

Although it is clear that institutional arrangements sometimes prevent people from increasing their working hours, financial incentives are also still important. It might be possible that among part-timers the number of hours can be increased further, if the financial incentives are right. That such is not always the case, can be read in the literature study, more specifically in section 4.1.4. In some institutional arrangements, an accumulation of different financial disincentives (an undesirable 'part-time trap') might be preventing the increase of hours among wives working only a few hours per week while their husband works full-time.

Labour productivity

One could reason that countries with a relatively low level of labour productivity should have a scope to increase productivity. Increasing labour productivity will decrease the demand for labour.[32] And lower demand for labour means less friction, that is a lower 'potential employment gap'.

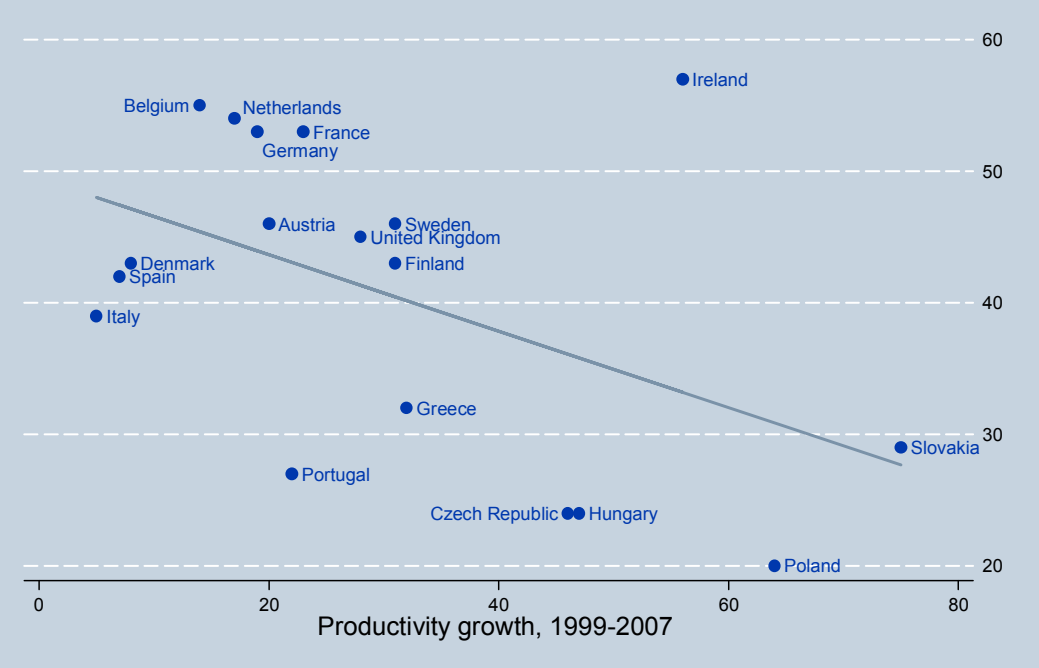
Notice that this solution only works if the supplied labour has mastered the right 'qualities' (skills) that are demanded. Otherwise, for parts of the population unemployment might occur. For example: if manual works gets replaced by a machine, people should master the skills to operate that machine.

The most right column of Table 19 shows how much the level of labour productivity lies behind a reference value of 55 (GDP per working hour, US$ 2007). In Figure 30 we plot the productivity levels (vertical axis) against their growth over the last ten years (horizontal axis). The emerging

[32] Unless labour productivity rises because of capital-saving innovations. If innovations are (only) capital-saving, the demand for labour will not decrease, even if labour productivity rises.

picture demonstrates the negative relation between both: the higher national productivity levels have become, the harder it is to make them grow further.

Figure 30 Productivity, level versus growth



Source: SEO calculations based on OECD (Labour Productivity Total Economy; Productivity Levels and GDP per capita).

It seems that there is scope for productivity improvements especially in countries like Slovakia, Poland, Hungary, Czech Republic, Greece and Portugal. Their average productivity level is low, but besides Portugal they have all shown above average growth. Slovakia and Poland seem particularly to be on the rise here, implying that if they can keep up productivity growth like that (in the long run, i.e. 'after the recession'), this may partially bridge their employment gaps.
The worrying cases are Portugal, Italy, Spain and Denmark. Portugal's growth has been below average, although their level is also one of the lowest. Somewhat higher up the scale are the other three countries: their economies have reached average productivity levels, but progress has been very slow. Even in comparison with the 'high-productivity, modest growth' countries like Belgium, Netherlands, Germany and France.

2.6 Summary

Although the current labour market is characterised by high unemployment in many countries, in the long run a tight labour market will prevail. The post-Second World War babyboom will cause a structural ageing of our society, which lowers the potential supply of labour, relative to the potential demand. In order to overcome this 'potential employment gap' the main options are:

- Increase employment participation (beyond the current Lisbon target).
- Increase labour productivity (in real terms, not just nominal productivity).
- Allow labour migration, as long as it facilitates the match of labour demand and supply (it then is beneficial for both the employee and the host country).

In the baseline scenario (based on Eurostat projections and an equal development of GDP growth and productivity growth) employment participation gap will be bridged at an average EU employment rate of 78% in 2050.

This is not unrealistic, but apart from a quantitative mismatch, there will also be a qualitative mismatch. The lessons that the recent crisis tells us is that important sectoral shifts can be expected. Employment in some sectors in the EU will disappear (manufacturing), while ageing increases demand in other sectors (health, leisure). Many employees have to be reallocated to different sectors of the economy.

This qualitative mismatch can be combatted by a more effective matching of the requested type of demand and type of supply. There is no ready-made solution, huge differences exist between countries and between sectors. In some cases only some extra training is required, is some cases a more activating welfare system. Inevitable is that institution should focus on 'employment security' instead of 'job security'.

3 International policies for driving participation

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3.1 Introduction

The current world-wide economic crisis has quickly shifted governments' attention to acute problems of restructurings and job losses. They feel the need to respond rapidly and adequately to the challenges this crisis brings. Although their actions are justified by the sudden and severe labour market problems, a long-term strategy for labour market participation remains essential. Such long-term strategies are offered by various international organisations that often have long-standing traditions and practices (legally based or not) in monitoring and recommending strategies on behalf of their member states to improve labour market performance. They have, each in their own way, designed policies that drive participation. Their views have proven to be inspiring for countries in fashioning solid and broad based solutions to tackle the main employment problems, and are characterised by an integrated and long-term perspective.

This chapter will outline the core ideas of the most renowned international organisations in the field of employment and the labour market: the International Labour Organisation (ILO), the International Monetary Fund (IMF), the Council of Europe (CoE), the European Union (EU) and the Organisation for Economic Co-operation and Development (OECD). Their values, views and analyses are often captured in catchy and well-known terms like "decent work" and "flexicurity"[33]. However, what are the main labour market challenges these organisation foresee, and which key directions do they advise countries to take in order to increase the overall participation in the European labour market? Are there similarities between the roads towards participation these organisations propose? These and other questions will be addressed in this chapter.

The outline of this chapter is as follows. First, a description of the organisations studied is presented, including their role in the international labour market debate and the instruments they have to influence the policies of nation states. Within the framework of this contribution it is impossible to highlight the full range of all relevant activities and themes these organisations cover. In the concluding section the main policy messages of the respective organisations are summarized in a comparative manner, along the following dimensions:

[33] These terms are often not exclusively used by one organisation. Flexicurity, developed in the EU, is for instance also referred to by the OECD and the ILO, while the CoE studies how labour market flexibility can be reconciled with social cohesion. Likewise decent work, a concept used by ILO, also gets attention in EU policies.

- Promotion of the quantity of labour market participation
- Promotion of the quality of labour market participation
- Preconditions of labour market participation, including:
  - Training
  - Social dialogue
  - Tax system and social security
  - Labour law

3.2 International approaches to labour market participation and employment issues

This section contains a discussion of the ILO, IMF, CoE, EU and OECD and their approaches to labour market participation and employment issues. The fact that these international organisations have put participation on their agenda, means that they all find that employment issues should, to some extent, be tackled at the supranational level. However, as we will see, this should not necessarily be done via law-making, but can also be done by creating policies, establishing standards and benchmarking.

In fact, the international bodies discussed in this chapter do vary significantly with respect to their formal power and their possibilities for securing compliance. The EU has clear legislative powers, however, less so in the fields of social security and employment. The main EU instrument to steer the labour market policies of its Member States is the European Employment Strategy (EES), which tries to steer employment policies with non-binding employment guidelines. The Member States have to annually report on the progress they have made in the respective employment fields and the Council and the Commission evaluate these efforts and make country-specific recommendations. The OECD operates likewise with a set of non-binding guidelines. The IMF has the opportunity to link the availability of support and guidance to the willingness of countries to engage in reform and restructuring. The ILO and CoE can address their member states for not complying with their standard (i.e. in the case of the ILO if the standard was ratified by the country). Further impact depends on the extent that national legislators and courts take up and adhere to the standards in national legislation and case-law. In addition all of the international organisation invest great effort in advice and support.

Importantly, whereas all policies aim at increasing labour participation, they all take a much broader approach to employment than participation as such.

3.2.1 The International Labour Organisation

The International Labour Organization (ILO) founded in 1919 and located in Geneva has a membership of 183 countries. It has recently celebrated its 90th birthday. The ILO is the only 'tripartite' United Nations agency. It brings together representatives of governments, employers and workers to jointly shape policies and programmes. The ILO is the global organization that draws up international labour standards and seeks to ensure, in collaboration with its Member States, that these standards are respected in practice.

The ILO is devoted to advancing opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity. In the ILO's

vision work is key to people's well-being, as it not only provides an income, but also contributes to broader social and economic advancement, strengthening individuals, their families and communities. The ILO works to advance the creation of decent jobs.

The ILO Director Juan Somavia introduced the concept of decent work in 1999. The concept draws on the concept of social justice that was forwarded as a fundamental principle at the establishment of the ILO. The normative framework of decent work is to a significant degree based on ILO conventions, some of which were drafted between the First and the Second World War. The innovative aspect of the concept lies in its emphasis on the ILO's fundamental values, the unification of all its programmes under one heading and the integration of the ILO's programme with other United Nations programmes (Heerma van Voss, 2008).

Decent work is defined, by the ILO, as opportunities for women and men to obtain productive work in conditions of freedom, equity, and human dignity (CEB High-Level Committee on Programmes, 2007, vi). It captures opportunities for productive work that provides a fair income, security in the workplace, social protection for workers and their families, prospects for personal development and social integration, freedom to state one's concerns, organize and participate in decisions affecting one's lives and equality of opportunity and treatment.

The ILO has identified four components of decent work (Ghai, 2006):
1) *Rights at work* represent the normative ethical and legal framework for all elements of decent work. Their aim is to guarantee that work is associated with dignity, equality, freedom and adequate remuneration, social security and voice, representation and participation for all categories of workers.
2) *Employment and work* is considered an essential element of decent work. In the ILO's perspective employment is not merely associated with wage jobs, but also with self-employment and work from home, part-time work, casual work et cetera. All that seek work should be offered adequate employment opportunities and work should produce a reward that meets the core needs of the worker and his or her family. Free choice of work, absence of discrimination and protection against dangerous working conditions and excessively long hours is also viewed crucial. The same goes for the right to form and join representative associations and to represent the worker's interest and engage in collective bargaining. The ILO attributes a prominent role to governments in developing economic and labour policies that can shape the pattern of work opportunities. Work opportunities are enhanced by policies that influence the rate and structure of economic growth, labour intensity of production (as opposed to low growth that depends on capital intensive production) and labour mobility and flexibility. It is argued that two groups of industrialized countries have done relatively well in combating unemployment: countries with highly flexible labour markets and limited unemployment and social assistance benefits, producing relatively high income inequalities and absolute poverty and those with a tradition of powerful unions, social dialogue and generous social security schemes, characterized by more egalitarian income distribution combined with active labour market policies (Ghai, 2006, 11).
For employment strategies to be effective, Ghai (2006, 13-14), an advisor to the ILO, contends, they need to be based on a wide array of economic and social policies. This is because employment has multiple dimensions but also because it is impacted by a large range of macro and micro economic policies. The latter include macro-economic stability, trade and exchange rate policies, agricultural and industrial development and technology, credit and labour market,

training and education policies. In the age of globalization and especially during a era when the world economy is in a recession, the coordination of macro-economic level at the global level is thought indispensable to warrant high levels of aggregate demand and to design counter-cyclical policies.

As there is a large variety in state of development among the ILO member states policy recommendation to increase labour market participation can not be uniform, but should be geared towards specific employment problems. However, as Ghai rightly states, in almost all countries there is a need to design women-friendly employment and work policies, including the removal of cultural barriers to women working outside their homes, eliminate open or disguised discrimination in recruitment, promotion and training.

3) *Social protection* serves to provide security against a number of risks, contingencies and vulnerabilities, including ill-health, maternity needs, accidents, unemployment and large economic fluctuations, but also anxiety, suffering and deprivation in a broader sense, not exclusively work-related.

4) *Social dialogue* refers to workers' voice and representation in the production process, aimed at defending their interests, expressing concerns and priorities and entering into negotiations with other actors. Empowerment of weaker parties and supporting their bargaining power are key objectives here. Social dialogue, in the form of tripartite bodies (employers, workers and governments), national economic and social councils and planning commissions, including all stakeholders, is also seen as a precondition for improved policy-making and implementation.

3.2.2 The International Monetary Fund

The International Monetary Fund (IMF), that came into existence in 1945, is mandated to monitor the international monetary system and the economic and financial policies of its 186 member countries. This activity is referred to as surveillance. During this process, conducted both at the global level and in individual countries, the IMF identifies possible risks to domestic and external stability and gives advice on required policy adjustments. In this way, it seeks to support the international monetary system in serving its essential purpose of facilitating the exchange of goods, services, and capital among countries, thereby sustaining sound economic growth.[34]

In recent years, as part of its efforts to strengthen the international financial system, and to enhance its effectiveness at preventing and resolving crises, the IMF has applied both its surveillance and technical assistance work to the development of standards and codes of good practice in its areas of responsibility, and to the strengthening of financial sectors. No such standard has been developed in the area of labour market policy.

The IMF reviews of global economic trends are reported in two semi-annual publications, the World Economic Outlook (WEO) and the Global Financial Stability Report (GFSR). The WEO offers detailed analysis of the state of the world economy, taking up urgent issues such as the current global financial turmoil and economic downturn.

In recent years, surveillance has become increasingly transparent. Almost all member countries now agree to publication of a Public Information Notice, which summarizes the views of IMF staff and the Executive Board. It is difficult to distil general prescriptions from these country-

[34] See the IMF's website www.imf.org

specific reviews with respect to promoting labour market participation. Yet among the common denominators are the need to increase flexibility and mobility in the labour market, activate social security systems, limit unemployment benefits, raise the retirement age and avoid heavy taxation on labour income. To illustrate this point we quote from the IMF's 2008 Consultation with the Netherlands, the most recent consultation, carried out before financial crisis became manifest.[35]

"Directors noted that imminent population ageing—which will shrink working age population starting early in the next decade—and comparatively low productivity growth could pose considerable challenges to long-term fiscal sustainability and external competitiveness. It will therefore be important to make early progress on labour and product market reforms aimed at raising the employment rate and stimulating faster productivity gains (…) Directors concurred that fiscal adjustment should rely on spending restraint and a broadening of the tax base, given relatively large tax wedges on labour income. Possible sources of savings include efforts to control health care spending, improvements in public sector efficiency, an increase in the effective retirement age, and a reduction in unemployment benefits. (…) Directors welcomed the ongoing efforts and the recent announcement of new measures to ease growing labour shortages and the impact of population ageing. In this regard, reforms of the tax system and social entitlements should aim to reduce the effective marginal tax rates on second family earners, target tax incentives to induce participation by the elderly, and tighten the enforcement of work availability requirements and reassessments of disability status. Directors encouraged the authorities to further liberalize the rigid employment protection legislation and to adopt other measures with a view to further enhancing labour mobility."

3.2.3 The Council of Europe

The Council of Europe, founded in 1949 and based in Strasbourg, covers 47 member countries.[36] It mission is to develop throughout Europe common and democratic principles based on the European Convention on Human Rights and other reference texts on the protection of individuals. With respect to labour market participation the following aspects of the Council's agenda can be considered relevant: access to social rights, social security and social cohesion. Rather than advocating concrete policies for labour market participation the Council focuses on the preconditions for workers and non-workers to participate, especially on the situation of vulnerable groups.

One example concerns the co-ordination of social security for migrants, people who move to another country in order to live or work there. Co-ordination provisions aim to counteract some of the disadvantages of moving from one state to another, particularly in respect of long-term benefits such as old age pensions.

In the area of social rights there is the European Social Charter, adopted in 1961 (ETS No. 035), and revised in 1996 (ETS No. 163). The European Social Charter guarantees fundamental social and economic rights of all individuals in their daily lives. It includes various rights to are deemed indispensable for people to adequately and safely function in the labour markets. The charter includes the following rights:

the right to protection against poverty and social exclusion; right to housing; right to protection in cases of termination of employment; right to protection against sexual harassment in the workplace and other forms of harassment; rights of workers with family responsibilities to equal opportunities and equal treatment; rights of workers' representatives in undertakings; reinforcement of principle of non-discrimination; improvement of gender

[35] Public Information Notice (PIN) No. 08/64, June 3, 2008.

[36] Including e.g. Ukraine, Albania and the Russian Federation, that are not a member of the European Union.

equality in all fields covered by the treaty; better protection of maternity and social protection of mothers; better social, legal and economic protection of employed children; better protection of handicapped people.[37]

In the area of social cohesion the Council of Europe has developed reports, recommendations and targeted support programmes seeking to improve public policies and services and thus strengthening social cohesion in Europe. Many of these efforts concentrate on the most vulnerable people, such as the unemployed, the homeless, refugees, orphans, discriminated minorities or people in poverty. One of the instruments developed is the Methodological Guide to the Concerted Development of Social Cohesion Indicators.

As understood by the Council of Europe, social cohesion is 'the capacity of a society to ensure the welfare of all its members, minimising disparities and avoiding polarisation' (Council of Europe, 2004:3). This definition implies that social cohesion can not be attained and established once and for all, but has to be (re)produced continuously. New developments in society can put its capacity to minimise inequalities to test. Flexibilisation of the labour market is such a trend, if not properly managed, that has the potential to undermine social cohesion. With its project "Forum 2005 – Reconciling labour flexibility with the need for job security" the Social Cohesion Development Division of the Council of Europe (CoE) addressed the challenge to initiate new policy frameworks in this field.

The Council's 'Tree Model' of social cohesion has been applied to processes of labour market flexibilisation (Wilthagen et al., 2006). This model can be used to benchmark labour market and employment reform and includes the following key dimensions:

a) Equity: workers affected by labour market flexibilisation should have/keep or at least get the perspective of similar income, working/health conditions and access to social security compared to standard/core workers. Labour market flexibility can help to ensure this access by creating employment but it can also endanger this access when some (vulnerable) groups of workers have to bear all the negative aspects of flexibility. Labour flexibility should thus strengthen the permeability and transitional nature of the labour market, but be accompanied with measures to guarantee decent work.
b) Dignity: workers affected by labour market flexibilisation should not be positioned and treated as a specific, less-worthy segment in the labour force and labour market. Job or employment insecurity can be identified as affecting someone's dignity. Depending or other conditions, it brings along feelings of stress that, especially on the long run, can affect the quality of life of individuals and their families.
c) Participation: all (affected) workers (or their representatives) should be able to participate, to be involved and/or be represented (either directly or indirectly) in the flexibilisation process and its outcomes, and to be provided with the necessary information and facilities to adequately do so. This is easier said than done because insecurity about their chances to stay employed may make workers less eager to use their legal possibilities to participate in for instance work councils.
d) Autonomy: workers affected by labour market flexibilisation should be provided with opportunities to further training, education and career- and personal development, also to possibly make transitions to more permanent jobs (if they wish so). So, flexibility should not limit

[37] See the CoE's website: www.coe.int

career opportunities but broaden them. An example of a negative effect of flexibility on the labour market on autonomy is the 'budget restriction' used by banks, due to the fact that a flexible worker cannot prove evidence that he will be employed in the future (which can create housing problems).

3.2.4 The European Union

The publication of the 'White Paper on Growth, Competitiveness and Employment' in 1993 greatly advanced the discussions on employment issues at the European level (Regent, 2003). At that time, Europe faced high levels of unemployment, causing the European Commission and the Member States[38] to undertake joint efforts to strengthen the economy and increase employment levels. This primarily meant the need to reform the labour market by increasing flexibility in work organisation and working time distribution, reducing labour costs, increasing skill levels and making pro-active labour market policies. Simultaneously, most Member States acknowledged the need to maintain the social protection system, although a re-examination of the existing social systems was regarded essential to give leeway to more active and less passive solidarity (European Commission, 1993).
In 1998 the European Employment Strategy (EES) was launched, consisting of employment guidelines that address a broad range of labour market issues. These guidelines are communicated to Member States, who each have to report annually on their progress in National Reform Programmes. The European Commission evaluates these reports, and may give recommendations to the Member States to improve their efforts. As of 2001 the EU has set distinct employment targets (the so-called 'Lisbon targets'), such as an average employment rate of 70% by 2010, including an employment rate of 60% for women and 50% for older workers. In 2005 the employment guidelines were integrated with micro and macro economic guidelines. Together, these guidelines should contribute to achieving the overall EU objectives of sustainable growth and employment and strengthening social cohesion. Thus, a strongly articulated focus on growth and jobs emerged. The Member States are asked to cooperate with the social partners and other stakeholders, in order to reach the goals. Underlying challenges driving the aim to improve labour market outcomes are globalisation, rapid technological developments and the ageing of society.

Concerning the employment guidelines, the overall aim is to achieve full employment, improve quality and productivity at work, and strengthen social and territorial cohesion. There are three priority areas in meeting the objectives:

- Attract and retain more people in employment, increase labour supply and modernise social protection systems;
- Improve adaptability of workers and enterprises;
- Increase investment in human capital through better education and skills (European Council, 2008).

[38] Currently, there are 27 European Member States: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom

Throughout the years, the guidelines that address the adaptability of workers and enterprises have become more important in the EES. The accomplishments of Member States in making their workers and organisations more adaptable to economic and labour market developments were lagging behind, although the European Commission judged that adaptability had become more and more important in order to meet the challenges of globalisation, technological development and the ageing of society (European Commission, 2006). This culminated in 2006, in the development of the concept 'flexicurity' (Wilthagen et al, 2007). Lately, the Commission has also paid a great deal of attention to new skills for new jobs (European Commission, 2008a).

Flexicurity

Flexicurity has been actively discussed at the EU the past years. This discussion resulted in the adoption of a set of common principles of flexicurity by the Council (European Council, 2007). These principles were the result of the efforts of the European Commission to develop a European flexicurity strategy, also in a debate with the social partners, civil society and experts (see e.g. European Commission, 2007, European Social Partners, 2007; European Flexicurity Expert Group). The Council found flexicurity a means to help reaching the Lisbon goals and distinguished four interlinked flexicurity components: flexible and reliable contractual arrangements; comprehensive lifelong learning strategies; effective active labour market policies; and modern, adequate and sustainable social protection systems. It also emphasised that there was no single European flexicurity model, but that Member States should rather develop their own flexicurity arrangements.

Another important aim of flexicurity was to reduce labour market segmentation and promote more open, responsive and inclusive labour markets. All workers should have better opportunities, economic incentives and supportive measures to access work or have stepping-stones to progress into stable and legally secure employment. However, workers should also find support in their transitions at the labour market and in their efforts to stay employable. In this respect both internal and external flexicurity were found important, meaning flexicurity measures within as well as between organisations. Moreover, flexicurity should offer gender equality, making sure that women can access quality employment and that workers are able to combine work and care.

The Council was also aware that flexicurity does not emerge without the efforts of various stakeholders. Flexicurity, they concluded, requires a climate of trust and broadly-based dialogue among all stakeholders, such as social dialogue. These stakeholders should be prepared to take the responsibility for change and willing to come to socially balanced policies. Therefore, apart from the public authorities, the social partners have a key role in the design and implementation of flexicurity strategies. Lastly, the Council concluded that the financial aspects of flexicurity are relevant as well and require a cost effective allocation of resources and be compatible with sound and financially sustainable public budgets. Moreover, the costs and benefits of flexicurity should be equally spread among the parties involved (European Council, 2007).

Key items of the EES

Whereas the EES of the EU is clearly directed towards getting and keeping more people at the labour market, quality of work is addressed as well. Efforts to raise employment rates go, according to the EES, hand in hand with improving the attractiveness of jobs, quality at work, labour productivity growth, the reduction of the labour market segmentation, and a decrease of gender inequality and in-work poverty. In order to improve quality and productivity at work the

EES asks Member States to fully exploit the synergies between quality at work, productivity and employment. Job quality encompasses pay and benefits, working conditions, access to lifelong learning and career prospects, as well as support and incentives stemming from social protection systems. Attached to career prospect is the right set of conditions to facilitate progress in employment, whether it is first-time entry, a move back to employment after a break or the wish to prolong working lives. It also encompasses a lifecycle approach to work and the reconciliation between work and family life. Thus, enterprises must not only be flexible enough to be able to respond to changes in demand, adapt to new technologies and innovate constantly, they must also respond to the increasing demand for job quality related to workers' personal preferences and family changes, and the ageing workforce. Effective investment in human capital and lifelong learning may support quality at work (European Council, 2008). Moreover, due to the expected rise in job-to-job transitions, policies to enhance mobility and matching on the labour market will become more essential.

The EES has as one of its priorities investing in human capital through better education and skills. For one, skills which are needed at the labour market should be better monitored and predicted. However, there should also be more investments in skills of people. The Commission finds that currently the lack of skills is too often the reason why people have difficulties to enter and remain at the labour market. Moreover, a sufficiently skilled work force contributes to productivity levels, innovation and quality at work. Lifelong learning is for instance needed in order to update workers on new technological developments and innovation. In addition, workers require new skills in order to remain and progress in work and to be prepared for transition and changing labour markets. However, the basis for lifelong learning is solid initial education, and thus government need to make sure that it provides a good education system that equips young people with the competences they need to successfully enter the labour market. Moreover, governments should reduce the number of early school leavers, so that no more than 10% of pupils leave school early. Moreover, at least 85% of 22-year-olds should have completed upper secondary education by 2010. In addition, lifelong learning should be open to all, in schools, businesses, public authorities and households, encompassing for instance incentives and cost-sharing mechanisms. The goal is to increase the participation in training throughout the life-cycle, particularly for the low-skilled and older workers. In total, at least 12,5% of the adults aged 25 to 64 should participate in lifelong learning.

The EES addresses at several occasions the position of disadvantaged groups. Equal opportunities and combating discrimination is seen as essential for progress towards the employment goals. Here, the EES refers to other EU programmes, such as gender mainstreaming and the promotion of gender equality as dealt with in the European Pact for Gender Equality. In line with the EU's intergenerational approach and the European Youth Pact, attention is directed to the situation of young people and to promoting access to employment throughout working life, including for older workers. Moreover, the employment perspectives for disabled people, and third-country nationals should be improved (European Council, 2008). Part of the active inclusion target also refers to the (labour market) position of marginalised groups, with a special focus on low-skilled workers. Most of the references to disadvantaged groups are made in the explanatory texts concerning the target to reach full employment, however, also concerning education and training targets groups are addressed. Concerning participation, the message seems clear: full employment means having inclusive labour markets. Some Member States face high

employment gaps between men and women, which obviously have to be reduced, as should, for that matter, the gender pay gap. Moreover, the employment rates of older workers and young people have to increase as well as the employment rates of those most excluded from the labour market. Youth unemployment is now on average double the overall unemployment rate. However, having work is not the only goal. Also the situation at work of young people, especially for the low skilled should be improved. A lifecycle approach to work and the reconciliation between work and family life, should contribute to the increase of employment rates, especially that of parents and single parents. Moreover, support for active ageing, including appropriate working conditions, improved (occupational) health status and adequate incentives to work and discouragement of early retirement, should contribute to a prolonged working lives.

Tax system and social security system

In the EES the tax system may also affect the inclusiveness of labour markets. In this respect, the tax and benefit systems should be reviewed regularly to see which incentives and disincentives it contains, such as the management and conditionality of benefits and the reduction of high marginal effective tax rates, especially for those with low incomes. However, while reviewing the tax system Member States should bear in mind the need of adequate levels of social protection. Thus, the role of the (changing) social of the social security system is also addressed. One of the most important new EU employment policies, flexicurity, emphasises for example the role of the social security system in achieving full employment. Flexicurity policies simultaneously address the flexibility of labour markets, work organisation and labour relations, reconciliation of work and private life, and employment security and social protection (European Council, 2008). In this respect, the EES often refers to the importance of having a 'modern' social security system. This means that a social security system should not only be a safety net for those who are unable to work, thus providing access to basic social services and an adequate level of minimum resources for all. It must also contribute to people's ability to progress at the labour market. Social security systems, including pensions and health care, can fulfil this function (often in addition to other measures) in several ways, focussing at first-time labour market entry, a move back to employment after a break, or the wish to prolong working lives. The call for a modern social security is not only made to add these extra features to it, but to also make sure that the social security system is sustainable. One of the features of a modern social security system is its' active inclusion policy. Concrete targets are for example that by 2010 every unemployed person should be offered a job, apprenticeship or additional training. For young persons who have left school, this offer should be made within 4 months and for adults within 12 months. Activation can moreover consist of training, retraining, work practice, a job or other employability measures, sometimes combined with on-going job search assistance. Here, the local level could contribute to offering such support. Another feature of social security is to provide sufficient support for people who are temporarily out of employment. This latter feature will allegedly become more important, because of the growing need for workers and organisations to be adaptable and the subsequent prediction of a growth in job-to-job transitions.

The EES also addresses facilities that could improve the match between job seekers and job vacancies, for instance by suggesting to optimise the labour-market infrastructure at national and EU level. Ideally, job-seekers throughout the EU should be able to access all European job vacancies. Moreover, the mobility of workers across EU Member States should be supported by the Treaties. Employment services could play an important role in increasing the transparency of

employment and training opportunities, both at the national and the European level. Moreover, the knowledge and anticipation of skill needs, labour market shortages and bottlenecks, should be improved.

In the EES the role of the social partners is emphasised, also in relation to wage setting. The Commission asks Member States to ensure good governance of employment and social policies and calls for a broad partnership approach by fully involving parliamentary bodies and stakeholders, including those at regional and local levels and civil society organisations, and giving a central role to European and national social partners. Such a system of good governance may very well be seen as another institutional feature that drives participation. The support and active involvement of the social partners is especially needed to improve the adaptability of organisations and workers and to provide employment-friendly labour costs developments. Concerning this latter goal, Member States are asked to encourage social partners to set the right framework for wage bargaining in order to reflect productivity and labour market challenges.

3.2.5 The Organisation for Economic Co-operation and Development

In 1994 the OECD countries[39] endorsed a set of policy guidelines as a response to the high and persistent unemployment that many countries faced in the late 1980s and early 1990s. These guidelines have been collected in the OECD Jobs Strategy (1994). The aim was to gather the factors underlying the perceived deterioration of labour market performances. Moreover, policy recommendations were designed to improve the adaptability of economies and societies to the rapid structural changes. The Strategy's eventual aim is to create more and better jobs.
The policy guidelines out of which the Jobs Study exists, covers a broad range of areas, including macroeconomic policy, innovation, entrepreneurial climate, skill development in the labour-force, various aspects of labour-market policies and institutions (wage-setting institutions, unemployment benefit systems), and the promotion of product market competition.[40] These broad policy guidelines consist of a large number of detailed policy recommendations (OECD, 2006). After ten years, the OECD Jobs Strategy was reassessed in order to adjust it to the new challenges in the OECD labour markets, such as the ageing of societies and globalisation. However, the majority of the guidelines and indicators remained intact. The Strategy builds on four pillars (OECD, 2006b):

- Sound macroeconomic policies;
- Removing obstacles to participation and job creation;
- Tackling labour-market obstacles to employment while providing adequate security to workers;
- Enhancing workers' skills.

The labour market trends of OECD countries are published in the OECD Employment Outlook, providing an in-depth analysis of policies, labour market institutions and a monitor of

[39] Currently, there are 30 OECD member countries: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

[40] According to OECD (2006), analytical findings point at the hampering employment effect of what it calls anti-competitive product-market regulations. Such regulations obstruct the creation of new businesses, keep prices artificially high and subsequently depress average real wages for the economy as a whole. Moreover, by restricting output, they tend to reduce employment levels.

the employment reforms of OECD countries, and policy indicators. From experience the OECD learned that there is 'no single golden road to better labour market performance'. However, according to OECD, successful performers share some common features, such as macroeconomic stability, adequate incentives for all labour market participants and a strong product market competition. Moreover, the OECD learned that benefit systems do not necessarily form an obstacle to job search and job creation (OECD, 2006b).

The OECD Jobs Strategy suggests a focus on more jobs rather than on the quality of jobs. However, it does address training opportunities for workers. The underlying premise is that a growth of human capital contributes to economic growth and social objectives. Therefore governments should strive for a high quality initial education. Moreover governments should, if this is part of the national practice in coordination with the social partners, create conditions that improve the skills of the labour force. Governments can do this in a number of ways, such as by creating a system by which newly acquired competences can get recognised, for example skills acquired by adults (e.g. new immigrants) through training or work experience. Moreover, training needs to be more geared towards market demands and thus respond to the skill needs of firms. Training provisions should strive for a higher quality for instance by monitoring training providers. Next, governments can support training programmes by facilitating training vouchers, training leave, schemes that allow for combining work and training, among other by co-financing from private agents. Training inequalities should be addressed by providing effective learning opportunities for disadvantaged groups, particularly the low-educated. Next, governments could expand the scope of apprenticeships by easing age limits and allowing flexible compensation arrangements. Moreover, employment programmes should meet the specific needs of disadvantaged groups. A second topic regarding this training goal, specifically addresses school-to-work transitions, which should be supported. This can be done for instance by reducing early-school leaving and by making sure that young people can acquire the skills they need at the labour market. Therefore, the links between general and vocational education could be improved, and career guidance could be offered. Moreover, governments could facilitate the combination of work and education for instance by improving apprenticeship systems.

The OECD Jobs Strategy addresses some vulnerable groups that in its recommendation that could and should benefit from the proposed measures. For one, these are the low wage workers and the low skilled workers, who could, according to the OECD, benefit from the removal of wage-related-taxes so that they are not regarded as too expensive by employers to hire. In this respect, also the recommendation to guard the level of the minimum wage should be seen. Moreover, OECD countries should create facilities or frameworks to make it easier to combine work and care, which could be explained as a special focus on the position of women (or other carers) on the labour market. The attention for the transition from school to work reveals a focus on the position of young people ,whereas the recommendation to attribute (equal) rights to people with an atypical contract points at attention for people that find themselves in the disadvantaged section of the segmented labour market. Also regarding skill accumulation there is attention for low skilled groups and young people.

Macro-economic policies and taxes

One of the pillars which support job creation is, according to the OECD, an appropriate macroeconomic policy. As this is the first pillar mentioned, the OECD seems to attach a great

deal of importance to this aspect. Macroeconomic policies should aim at economic stability, price stability and sustainable public finances in order to keep interest rates low and encourage investment and labour productivity and stimulate growth and employment. The economic growth will thus be strengthened, resulting in the growth of employment, according to the OECD. One of the recommendations in pillar B of the Jobs Strategy is to Adjust taxes and other transfer programmes to make work pay, all to make it financially (more) attractive to people to accept a job. This could involve changes in the tax system.

Social security system

Pillar B in OECD's Job Strategy addresses the removal of obstacles to labour market participation and job search and scrutinises the role of social security systems and taxes in the performance of the labour market. A new-style social security system could support transitions to jobs, although the OECD keeps stressing the risk of slowing down job search. Especially in the old OECD Jobs Strategy the existence of unemployment and other benefits and active labour market programmes were perceived as a potential barrier to job search and job creation. However, in the revisited Jobs Strategy of 2006, the OECD has changed its view on the role of these social security provisions. Therefore, the first key recommendation in this pillar is: Implement well-designed unemployment benefit systems and active labour market policies. Although the OECD still remarks that a cut in benefit levels and their duration has indeed succeeded in raising work incentives, it also may have compromised social objectives. Now, the opinion of the OECD is that innovative benefit systems may achieve a combination of reasonably generous benefits, low unemployment and high labour market participation. Such innovative benefit systems are generally linked to intensive assistance to and monitoring of jobseekers, i.e. activation measures, encompassing "mutual obligations", employment services that are in close contact with people on benefits, and tax-benefit reforms that ensure that work pays (OECD, 2006b). A second recommendation in this pillar is: Make other non-employment benefits more work-oriented. Gate-keeping measures should prevent that people unnecessarily leave the labour market via sickness or disability systems, while keeping up the level of protection for people who cannot work. Here also, job-search support and financial incentives to go back to work can be in place. Moreover, early retirement facilities should be gradually phased out and other retirement provisions should be cleared from incentive for early retirement. Another recommendation in this pillar is: Facilitate family-friendly arrangements that make it easier to combine work and care, such as childcare support or working-time arrangements.

Labour law and wage-setting

Pillar C of the OECD Jobs Strategy addresses to a large extent the legal system, however, in this particular pillar to improve labour demand. The pillar tells OECD-countries to *tackle labour- and product-market obstacles to labour demand*. The first recommendation of this pillar is: Ensure that wages and labour costs respond to labour market developments. This means that the level of minimum wages should not hinder job creation, especially when it involves low productivity workers. Also, if payroll taxes on labour are too high, they should be reduced, in particular on low-wage earners. Health and pension contributions should be kept under control. Moreover, in countries where uncoordinated sectoral collective agreements prevail and where these have adverse effects on employment, individual firms, through collective agreement, should be allowed to opt-out from sectoral agreements or the administrative extension of sectoral agreements should be reformed. The second recommendation in this pillar is: Enhance competition in

product markets, which involves the improvement of the entrepreneurial climate, by the removal of legislation that hinders the entry of new firms in all areas where competition is feasible, the reduction of administrative burdens on business start-ups, lowering start-up costs, and simplifying the administrative procedures for the creation of new businesses. OECD countries should move towards open international trade and investment in goods and services and state control that restrains competition should be reduced. A third recommendation addresses the facilitation of the adoption of flexible working-time arrangements, a topic which is also addressed from a national legislative perspective. Labour legislation should be cleared from any rules that limit options for flexible working-times arrangements, concluded by employers and employees. Moreover, tax and social security provisions should not discriminate against part-time work or other flexible arrangements should support the reconciliation of work and family life and should promote a gradual transition from work to retirement. The fourth recommendation is to Make sure that employment protection legislation helps labour-market dynamism and provides security to workers. Overly strict EPL should be reformed. Although unfair dismissal should be sanctioned, dismissals for economic reasons should be freed from restrains. Severance costs and administrative procedures should be more predictable and reasonable dismissal notice periods should be provided, the latter being necessary to assist redundant workers in finding new jobs. Moreover, in some countries the regulations on fixed-term and temporary contracts may need to be relaxed; in order not to avoid or aggravate labour market segmentation, which ultimately undermines labour market performance. Furthermore, there needs to be a more balanced treatment of temporary and permanent contracts for instance by increasing dismissal protection rights in line with seniority. The last recommendation says to Promote transitions to formal employment, which means that taxes on low paid employment should be lowered, while increasing the compliance of other taxes. Moreover, reforms of labour regulations and business registration requirements, could improve firms' willingness to create formal jobs, whereas closer ties between social protection entitlements and work can encourage workers to declare their job.

3.3 Conclusions

Although all international organisations acknowledge that there is no-one-size-fits-all model for all countries, the discussion above reveals that they do present general directions for the development of the labour market and the promotion of participation. For the member states of these organisations these policy recommendations, conventions, regulations, guidelines or standards serve as driving policies.

In this concluding section we summarise the key messages of the policies into a matrix (Table 20). The matrix shows the major concerns of each International Organisation on a limited range of policy issues, namely quantitative employment targets (for the increase of labour participation), the quality of participation in work, and the preconditions for promoting labour market participation, including training of employees, social dialogue, tax systems and social security and labour law.

Table 20 Key messages from international organisations on labour market participation and its dimensions

	ILO	IMF	CoE	EU	OECD
Key target	Promotion of decent work	Support international monetary system in facilitating exchange of goods, services, and capital, thereby sustaining sound economic growth	Promotion of democratic principles, human rights, dignity and social cohesion	Full employment, quality & productivity at work, social and territorial cohesion	Create more and better jobs
Key methods	Decent work Agenda, setting and monitoring of standards	Surveillance, technical assistance, codes and consultations with member states	Development of standards, charters and indicators; recommendations	Policy guidelines, evaluations and recommendations. Role of law in employment and social security is relatively limited.	Policy guidelines and recommendations
Quantitative employment targets		Economic growth means more jobs		70% overall labour participation	More jobs, more people in employment.
Quality of work	Develop the quality of work as aspect of decent work		Stress participation, dignity, equity and autonomy in work	Exploit the synergies between quality at work, productivity and employment	
Preconditions					
Training	Provide training as aspect of decent work	Can be aspect of consultation with member states	Right to training is element of charter of rights	New skills for new jobs. Overall goal EU knowledge economy	Enhancing workers' skills
Social dialogue	Tripartite social dialogue is key		Participation in decision-making processes is a component of social cohesion	Social dialogue is precondition at all levels, especially in meeting adaptability targets (flexicurity).	Partners to government in improving skills, only if this is part of the national practice
Tax system and social security	Social security is major aspect of decent work	Broaden the tax base, avoid heavy tax wedges on labour income, reduce employment benefits	Social security entitlements are important for social cohesion	Review the incentives and disincentives, but secure adequate levels of social protection	Develop sound macroeconomic policies; remove obstacles to participation and job creation; provide adequate security to workers
Labour law	Decent work requires rights for workers	Reform rigid unemployment protection systems	Create and respect various rights for workers and non-workers	Develop flexible and reliable contractual arrangements	Remove obstacles to participation and job creation

The matrix indicates varying messages, emphasizing either a social rights and human conditions approach (CoE, ILO), a mixture of economic and social goals (EU, OECD) or a predominantly economic and financial perspective (IMF). This difference in approach also explains why some of the organisations place more emphasis on enhancing labour market participation ("more jobs") whereas others see the quality of participation in work as a core aspect ("better jobs").

The organisations that specifically address the need to raise labour market participation always view this as an aim targeted at the entire labour force. Specific target groups are distinguished, but not merely to recommend how to raise their labour market participation. They are also singled out to address their vulnerable position at work (e.g. having relatively often fixed-term or other atypical employment contracts) or participating less often in training and education. Solutions for further driving the participation of these groups are therefore often sought in the preconditions of participation: training, social dialogues, tax systems, social security and labour law.

The target groups mentioned in earlier chapters (women, elderly and unemployed) are often also mentioned in the policies of the respective international organisations. Concerning women the policies that drive participation often refer to policies that allow women (and men) to combine work and care (ILO, EU, OECD) or demand more gender equality (ILO, CoE, EU). Part of the suggestions is to provide accessible and affordable child care facilities, to take a life-cycle approach to work, or to make sure that social security provisions do not discriminate against part-time work.

Regarding the unemployed, active labour market policies are often recommended in order to bring people back to work (EU, OECD, CoE). For the elderly gradual transitions from work to retirement are suggested (OECD). Other vulnerable groups are migrants (who for example have poor access to social security provisions) (CoE, EU), low skilled people (that often lack access to training and are more frequently unemployed) and handicapped persons (who also often face severe difficulties finding a job) (CoE, EU). One suggestion is for instance to remove wage-related taxes (EU, OECD). Also young people are seen as a vulnerable group, especially those who drop out of school early or have difficulties in making the transition from school to work (EU).

Although, as stressed in the beginning of this chapter, these international organisations advocate a structural and long-term perspective, all of them are currently very active in responding to the current financial and employment crisis. It remains to be seen to what extent this will eventually impact their key policies for labour market participation and employment in a more fundamental way. The European Commission e.g. has already stated that it considers its flexicurity policy no less relevant in the current times of crisis and also beyond the crisis (European Commission, 2008b).

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4 Policy solutions in the empirical literature

In a previous chapter we discussed the decline of labour supply caused by ageing and the resulting potential employment gap. This gap can be closed in different ways. One channel is the employment participation rate. In this Chapter we present an extensive literature study which reviews different instruments to increase participation: the 'drivers of participation'[41]. We focus on policy instruments that have been empirically tested in scientific literature. Although experiences from the past are no guarantee for the future, they can give valuable insights into how to model future policy. We make a distinction between the target groups of the Lisbon agenda: women, the elderly, and the (long-term) unemployed. Often, women and elderly citizens who are not working are not considered unemployed, but rather not part of the active labour force, if they do not receive unemployment benefits. Note that unemployment, in and of itself, is not the real problem. Long-term unemployment is, however.

Evaluations of policies aimed specifically at increasing female and elderly participation are generally more conclusive than evaluations of policies aimed at increasing the participation of the unemployed in general. For that reason, tailor-made approaches to increase participation in these two groups tend to be more effective than general measures to increase overall participation. Recent research confirms that there is no one common policy that works the same for all European countries and regions (Elhorst & Zeilstra (2007)).

Section 4.1 discusses research on the instruments that may increase female labour supply. Section 4.2 focuses on the participation of the elderly. Section 4.3 shifts attention to the (long term) unemployed. Section 4.4 concludes this chapter by giving some 'best practices' in stimulating participation for various countries.

4.1 Drivers for women

Female participation rates have been identified as the most important factor in explaining the current variation in participation rates across countries. They have also been identified as the most important factor in overall participation growth. In most EU countries, female labour participation has increased strongly over the past thirty years. The timing has varied, with some regions, such as the Scandinavian countries, showing earlier increases in female participation. In the last two decades, the largest increases have been observed in some southern European countries (Spain, Italy, Greece, and Portugal) as well as in some northern European countries (the Netherlands, Belgium, Luxembourg, Germany, and Ireland).

A major consideration for female labour force participation is finding the optimal balance between work and family responsibilities. Female employment rates generally decrease around childbirth. In the past, mothers with young children were traditionally characterized by a low labour force attachment. Younger generations of women on the other hand tend to keep on working, with or without a short interruption around childbirth. At the same time there is an

[41] Although the study is elabourate, we do not claim that it is comprehensive or exhaustive.

increased awareness in most countries that balancing work and family responsibilities is important for women and appropriate policies have been adopted.

The studied evaluations of female participation policies point towards the following:

- an effective way to increase participation is to introduce an equal tax treatment plan, under which non-single women are taxed the same as single women, and as men;
- child care availability (in the right place and for the right hours) is more important than price;
- (paid) parental leaves have varying effects, depending on the type of institution, but excessive leave periods lead to fewer returns, and lower wages are a negative side-effect;
- availability of part-time opportunities can prove effective, at least in countries with a strong female preference for part-time work (like Denmark, France, and the Netherlands); and
- studies on temporary agency work show positive effects. It is often more flexible and provides more opportunity to combine work and family responsibilities, resulting in a higher female labour force participation.

Female education, cultural attitudes and gender discrimination remain major factors in female participation rates.

In the following sections, we discuss cost and provision of child care, (paid) parental leave, equal tax treatment for married women, part-time work opportunities, fixed-term contracts and temporary agency work, education, cultural attitudes, and gender discrimination.

4.1.1 Cost and provision of child care

In *the Netherlands* the effect on female labour supply of subsidized child care has not been analyzed yet. In the recent past Dutch child care policies focused on increasing the availability of child care, and on involving employers in sharing child care costs. What has been established in Dutch empirical research is that changing prices of child care has no or comparatively small effects on labour supply. For example, Groot and Maassen van den Brink (2006) find that labour supply is more sensitive to changes in the wage rate than to changes in the price of child care. This implies that at current prices the labour supply of women can be influenced more effectively through changes in wages than through changes in child care prices. For example, if the government's aim is to stimulate female labour supply, it seems more effective to allow tax reductions on labour income for women with children as is the case in the US, rather than to further subsidize child care. Such a tax policy measure is included in recent Dutch governmental child care policies. Wetzels (2005) shows that there is a positive and significant correlation between the labour force participation of Dutch women and the use of paid child care. Women with a pre-school child will most likely decide simultaneously on using child care and participating in the labour force. Wetzels also concludes that the price paid for formal child care by the household depends solely on the husband's income, whereas the mother's working hours, her income, education, and age have no influence. A plausible explanation for this result is that the cost of child care has an effect on the switch from formal (expensive) care to informal (cheaper) care, but has no influence on the labour force participation of the mother. Fouarge et al. (2005) have studied the effect of the availability of child care on labour market entry of women in the Netherlands. They conclude that the availability of child care has no effect on the re-entrance of women aged 20 to 44 with children under the age of 8. More child care provision has stopped the outflow of women from the labour force, but has had no influence on the inflow.

US studies find various effects of child care costs and subsidies. Hofferth and Wissoker (1992) show that American parents are very sensitive to the costs of child care. Policies that reduce the price of child care increases demand for child care. Policies that increase the quality of child care centres on the other hand do not increase demand. Leibowitz et al. (1992) examine the relationship between the mother's decision to return to work in the two years following childbirth and the type of child care she chooses. Women with higher wages are more likely to return to work by the time their child is three months old. Women with high family income on the other hand delay return to work. Wages and income did not significantly affect the choice of market (formal) versus nonmarket (informal) child care. Women who receive a high subsidy for child care are far more likely to return early (within three months). Michalopoulos et al. (1992) find that more generous subsidies will increase labour supply, but that the primary beneficiaries are current users of high-quality free care who will buy slightly higher-quality market care. According to Ribar (1995), the suppression of the main public policy for income assistance to child care in the US (Child and Dependent Care Tax Credit), would have only a tiny effect on female labour supply. The participation rate of mothers with children younger than 15 years would slightly reduce from 52.6% to 51.1%. Neither does Ribar predict large transitions from full-time to part-time jobs. On the contrary, according to Averett et al. (1997), suppressing the Child and Dependent Care Tax Credit would have a positive effect on the number of hours worked by young mothers. A possible explanation for the sometimes large difference in empirical results might be the difference in methodology and data sources used.

For *Canada*, Powell (1997) finds a significant effect of child care cost on labour force participation of married women. She calculates that if child care costs were subsidized by 50% the probability of labour force participation of married women would increase from 46% to 56%. If child care costs were fully subsidized, 63% of married women were expected to participate. In a follow-up study (Powell, 1998) shows that the increase in participation rate will be mainly driven by full-time workers.

For *Italy*, Chiuri (2000) and Del Boca (2002a, 2002b) conclude that household labour supply depends on the availability of child care rather than its costs. Child care for young children can be restricted or is rationed in two ways: in the number of places available and in the number of hours. Ferrera (1996) and Addabbo (2001) show that expanded child care with more hours encourage women to work more. Del Boca (1993) finds an effect of lower child care costs on the probability of part-time employment, but not on full-time. Chiuri (2000) does not find a significant effect of child care costs on female labour supply. The overall conclusion for Italy appears to be that policies that reduce the financial cost of child care are not enough to increase the participation of women. A sufficient provision and expansion of the child care system combined with financial relieve could have a more positive impact.

For *England, France and Germany* little impact has been found. Chevalier and Viitanen (2002) have examined the causality between female labour force participation and the supply of child care in England. They show that an increase in the availability of child care has led to an increase of female participation with a certain delay. An increase in the participation of women does not lead to an increase in the supply of child care, but only to higher prices for child care and larger queues. Choné et al. (2003) have simulated different policy reforms in France with respect to child care costs. They show that the influence of the tax credit on child care expenditures (CCTC) on mother's labour supply is weak. Increasing the subsidy rate from 25% to 50% would only result in a slight increase in total female participation and a bigger increase in paid care use.

Suppressing the CCTC would only result in a weak reduction in total female participation. For Germany, Wrohlich (2004) find significant but small effects of child care costs on mother's labour supply: a 1% increase in private child care costs would result in a decline of the labour force participation of mothers of 1% points in West and 0.5% points in East Germany. If child care were free of charge for all households, mothers' labour force participation would rise by 3% points in West and 1.5% points in East Germany. She notes that compared to other countries such as the US, Canada or the UK, the effects are rather small, which can be explained by the fact that child care costs are already heavily subsidized in Germany. For England and Germany it is expected that expansion of the availability of child care will have more impact of the participation of females than (further) decreasing its costs.

4.1.2 (Paid) parental leave

For the *US and Canada* many studies show that (unpaid) parental leave results in lower wages and worsens job opportunities. According to various studies wage penalties in US can be as high as 7% per child. Taking into account other effects which are also related to parental leave such as a lower investment in human capital, part-time work and a reduced seniority function, wages are only 2/3 of what they would have been without taken parental leave. These effects are probably due to reduced productivity and discrimination by employers. Waldfogel (1998) shows that a parental leave combined with a guarantee of re-entrance improves job opportunities but wages are still lower. He also shows that women with children typically pay a wage penalty of 10-15% compared to equally educated and experienced women without children. This phenomenon is sometimes called the 'family pay gap' or the 'price of motherhood'. This gap establishes that women with children consistently earn less compared to unmarried women and to married men.

European studies are not as clear as American studies on the re-entrance opportunities for women after parental leave. Gustafsson et al. (1996) show that re-entrance behaviour is dependent on the provisions of the welfare state. They compare re-entrance behaviour of women in Sweden, UK and Germany. These countries represent respectively a social-democratic, a liberal and a conservative welfare state. The Swedish welfare state has the most favourable arrangements for parental leave compared to the other countries. Swedish women with children have the highest probability to re-enter the labour market. A similar conclusion can be found in Mandel and Semyonov (2006) and in Stier et al. (2001). Countries with policies that encourage the combination of work and caring responsibilities have a higher re-entrance rate after taken parental leave. Ruhm (1998) finds evidence that paid parental leave increases employment rates in nine OECD countries[42] covered by his study. His analysis shows that short paid parental leave (not longer than 3 months) increases the employment-to-population ratio with 3-4%, and long paid parental leave (not longer than 9 months) increases this ratio with 4%. Note however that his conclusion could (partly) be caused by the simultaneous introduction of other measures balancing work and care. Taking parental leave for an extended period may deteriorate labour market skills and damage future career paths and earnings (Edin and Gustavsson, 2001).

There is some evidence that very long parental leaves makes it more difficult for women to return to the labour market. For example, research by Ondrich et al. (1998) concludes that an increase in the parental leave from 6 to 10 months has a substantial negative effect on the female participation in Germany. The probability of re-entry for full-time working mothers decreases by 50%. The reduction would be even higher if paternal leave is extended to 18 months with a

[42] Denmark, Finland, France, Germany, Greece, Ireland, Italy, Norway, and Sweden.

guaranteed return to the job. Part-time working mothers have a higher re-entry probability than full-time working mothers. But probabilities of re-entry would also decrease for part-time working mothers with longer paternal leave and a guaranteed return to the job. Their re-entry probability after 6 months is 60% and it decrease to 47% after 10 months of parental leave and to 21% after 18 months. Roman (2006) also finds that the length of parental leave correlates negatively with the participation and wages of women, particularly if full-time leave is taken. An OECD analysis (Jaumotte (2003)) shows that beyond 20 weeks the marginal effect of additional parental leave on female participation becomes negative. Ruhm (1998) and OECD (2002a) confirm that extended parental leaves have a negative impact on wages of returning mothers. Román and Schippers (2006) find for Belgium that full-time (paid) parental leave decreases the participation rate of women, but increases their wage after re-entry. They suggest that employers appreciate the full availability of those mothers which translates into higher wages.

Tijdens (2002) shows for the Netherlands that a career break has a great impact on female wages. The effect is related to the break itself, while the duration of the break is of less importance. Kok et al. (2007) examine the effect of introducing paid maternity leave on the participation of mothers in the Netherlands. They find that the participation rate of mothers with children under the age of 12 will increase by 7.3% when they receive paid parental leave compared with the situation in which they do not receive paid parental leave.

4.1.3 Equal tax treatment for married women

In most OECD countries married women are effectively taxed more heavily than men and single women. There is much international evidence that high marginal tax rates reduce labour supply. Also labour supply elasticity is higher for women than for men as women react more to a change in the net wage and hence the impact on female labour participation of a change in tax rate is significant higher than on male participation.

Jaumotte (2003) shows that a high marginal tax wedge between second earners (i.e. married women) and single individuals has a negative impact on female participation. Her conclusion is covered by seventeen OECD countries over the period 1985-1999. She also shows that if women and men are taxed separately and equally, women will participate more. Gustafsson (1992) compares the tax systems of Germany and Sweden. Sweden introduced separate taxation in 1971, and ever since the labour force participation of married women has increased. Germany has separate income taxation, but couples are jointly taxed at a lower rate than single earners. Gustafsson predicts the labour force participation for German and Swedish wives aged 25-59 when confronted with the tax system of the other country. The participation rate of German women who work part time in that case increases from 50.3% to 60.0%. Full-time female workers' participation rates move from 27.8% to 30.6%. Similar results are found in a comparable study done by Holst et al. (1988). Swedish women who are confronted with German taxation react completely opposite. Participation rates for part-time women decrease from 80.2% to 60.4%. For full-time working women participation rates decrease from 45.4% to 38.5%. Clearly the difference between the Swedish and German tax systems is an important factor in explaining why Swedish women participate more in the labour market than German women. Paid parental leaves and subsidized child care provide additional explanations for the Swedish situation.

These and other studies (e.g. O'Donogue & Sutherland (1998)) show that separate taxation has a positive effect on the participation of second earners (mainly women). Under joint taxation, the

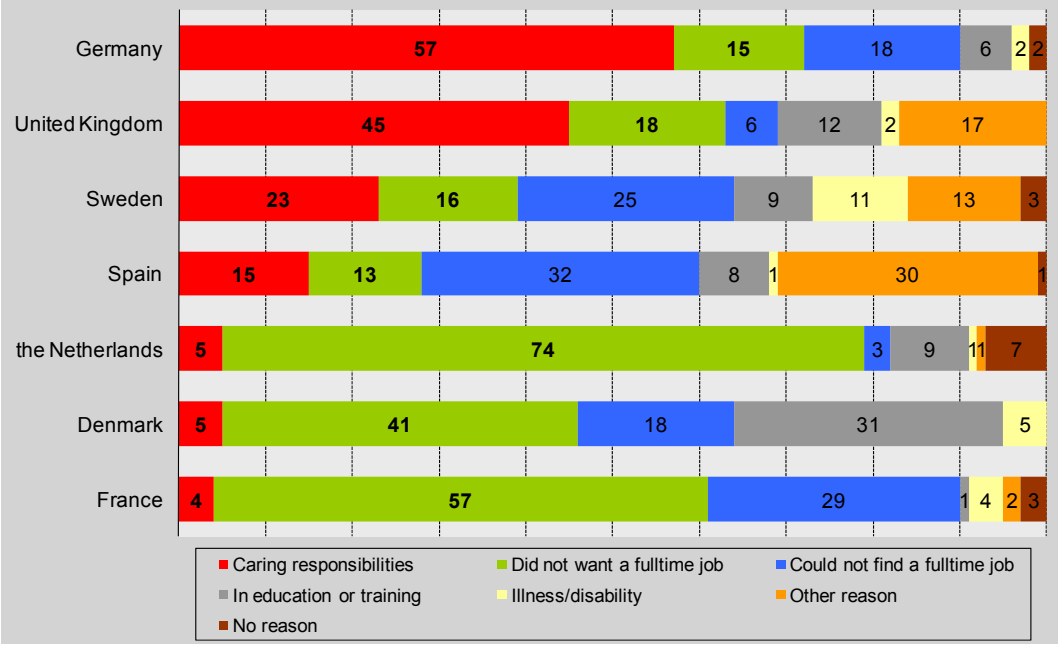
second income earner often starts at a much higher marginal tax rate than in the case of separate taxation.

4.1.4 Part-time work opportunities

In OECD countries about one-quarter of female workers at age 25-54 have part-time jobs (Jaumotte (2003)). The highest share of part-time work can be found in the Netherlands, Switzerland, Japan, the United Kingdom, and Australia. Countries with the least women in part-time jobs are in Eastern Europe, Korea, Finland, and Portugal. The share of part time work declined significantly in Nordic countries (as women moved to full-time jobs) and increased in other European countries and in Japan.

Part-time work is often seen as a way to facilitate the integration of women in the labour market, by allowing them to combine market work with family responsibilities. Figure 31 provides information on reasons for women to work part time. In a number of countries a large percentage of women works part time because of family responsibilities. The availability of part-time jobs may be crucial to female labour force participation even in a country like the Netherlands, where part-time work is fairly common. Euwals (2001) finds that the flexibility of working hours in the Netherlands is often low, and women who would like to work substantially fewer hours have a higher propensity to leave the labour market. In countries with high preferences for part-time work, an increase in part-time work opportunities would most likely raise female participation[43].

Figure 31 Reasons for working in part-time job, women age 15-64, 2005 (in percentages)



Source: EU (Labour Force Survey 2005).

[43] Elhorst & Zeilstra (2007) confirm the importance of part-time work and a favourable industry mix for the participation of women. As regards the demand for part-time work by companies, Anxo et al. (2009) find that, in Europe, country-specific features (such as societal and institutional factors) play a larger role than industry specific factors (organisational or productive constraints).

4.1.5 Fixed term contracts & temporary agency work

For some workers, mostly women, temporary contracts offer opportunities to combine work and family responsibilities. This is especially true for temporary agency work and on-call work. In these types of contracts, workers have more flexibility in designing their own working hours.

Albert and Bradley (1998) analyze the accountant profession using a sample of 175 professional accountants permanently employed in a large London accountancy firm and 50 employees of a London-based temporary employment agency specialized in accountants. They find that women working via temporary work agencies experience much more control over their working conditions than those working in regular jobs. This might be an indication that temporary agency work allows women greater latitude for combining their work and care. On the other hand, some researchers suggest that job instability negatively influences family formation. Ahituv and Lerman (2005), for instance, show that higher perceived job instability leads to lower probabilities to marry and also lower probabilities to remain married for US men. De la Rica and Iza (2005) estimate duration models of time until marriage and time until birth of the first child in Spain. They find that having a temporary contract delays motherhood, particularly for young women. Non-participants do not delay motherhood. This is consistent with a career-planning motive that delays motherhood for those women who wish for a professional career.

4.1.6 Education

During the 20th century, many Western countries have experienced a strong increase in the female labour force participation and at the same time a substantial increase in the number of women with more and higher education. In general, education is correlated with employment probabilities, especially full-time employment. Elhorst & Zeilstra (2007) confirm that higher education and higher participation rates go together in European countries and regions.

4.1.7 Cultural attitudes

A Dutch study by SCP (2008) titled 'The Netherlands part-time country' shows that in the Netherlands most women prefer to work in part-time jobs. In fact 75% of all working women do so. Most striking about this is that this choice is independent of having young children. One should expect that women who just gave birth to a child reduce their working hours, but will increase them again when children go to elementary school. Dutch women hardly ever shift back to working more hours. The results of the SCP study are consistent with an earlier study in 2006 on stated preferences and attitudes in society towards the employment of women. In that study 96% of women who work part time and have a working male partner prefer to work part time. The number of individuals with a negative attitude towards women combining full-time work and raising children stayed stable for all generations starting from the generation born in the early 1950s. These findings suggest that full-time work is not expected to become a standard model for Dutch women in the near future.

The SCP (2008) study also shows that Dutch women are not alone in having a strong preference for part-time work in combination with taking care of the children. Women in former West Germany, Spain and France share this attitude and the desire to combine work and care. The non-availability of part-time jobs might hinder female participation rates.

Table 21 Answer to the statement "A household will suffer if the woman has a full-time job", percentage that (strongly) agrees

	Women	Men
Spain	53%	51%
Former East Germany	45%	46%
The Netherlands	43%	41%
Former West Germany	32%	35%
Denmark	27%	27%
Sweden	24%	27%
France	22%	27%

Source: International Social Survey Program 2002

SCP (2006) also has insight into the attitudes towards (formal) child care. The study briefly reviews research on the effects of formal child care on the children. SCP mentions that American research suggests that children who were in formal child care are slightly more aggressive than other children. Dutch studies find neither positive nor negative effects of formal child care. They are also too limited to make strong general conclusions. Compared to the US quality of Dutch formal child care seems to be higher. American children make more and longer use of formal child care. The SCP study shows that most Dutch women prefer to take care of their children themselves. Next in line is family in particularly grand-parents. Only 33% of the mothers choose formal child care as a possible (third) option and even then mothers do not want to use child care that often. 75% find it acceptable to send their children for a maximum of two days to a child care centre. These attitudes obviously restrict the willingness to use formal child care. Higher educated mothers are more in favour of formal child care then mothers with a lower education. There are no differences in attitudes towards child care between younger and older mothers.

4.1.8 Gender discrimination

Gender discrimination in pay and promotion opportunities might have a negative effect on female labour participation. Empirical evidence on the existence of gender discrimination is difficult to obtain. Gender differences in pay and promotion can be explained to a large extend by differences in observed characteristics and whatever cannot be explained might still be related to unobserved characteristics (OECD, 2002b). It has also been suggested that women are under-represented at higher job levels (glass ceiling) because they voluntarily choose for jobs that offer fewer opportunities for promotion, and not because of discrimination. On the other hand one cannot proof that there is no discrimination against women either.

Some countries have introduced gender-specific anti-discrimination laws. These have been relatively effective in lowering the gender pay gap. This occurred more rapidly in countries that had centralized wage bargaining structures at the time of introduction of the law.

4.2 Drivers for the elderly

With an increasing share of elderly persons in the population, and a large decline in the share of the prime working-age population, countries are facing substantial pressures on public finances. This is especially relevant to old age benefits that are financed through a pay-as-you-go system. The most obvious solution is to encourage people to work longer and retire later. The primary way to encourage this is to get the financial incentives right. Financial incentives embedded in pension systems (or other welfare benefits) play an important role in work-retirement decisions.

It is essential that older people do not face a large implicit tax if they chose to continue to work. Raising the statutory retirement age one year, while leaving in place existing early retirement schemes, could raise the participation rates of older workers. An actuarially neutral social security system[44], in which social security wealth is independent of the retirement age and therefore does not distort the retirement decision, could increase participation rates for older males in OECD countries. Linking pension contributions to pension benefits also seems to stimulate participation among older workers. The same conclusion can be made for different reforms in early retirement schemes.

Nevertheless, financial incentives in pension systems alone are not sufficient to promote employment opportunities of older workers. It is important that other welfare benefits, like unemployment and disability benefits, are not used as alternative pathways to an early exit from the labour market. Restricting access to these benefit systems reduces early retirement and causes older workers to participate longer. Recent research confirms the effect of economic incentives in the pension system and alternative, early retirement systems (Elhorst & Zeilstra (2007)).

One should also keep in mind that an increased willingness of older workers to work longer will have to be matched by a sufficient number of job opportunities if unemployment is to be avoided. This requires a major change in the attitude of employers towards hiring and retraining older workers.

The health status of older Europeans has a major influence on their probability of employment. People with health problems or severe restrictions in activities have a much higher probability of being out of the labour market. Improving the employability of older workers also is important. On-the-job-training for older workers, in particular those with a lower education level, has been found to reduce the probability to retire. For older people, alternative employment models, such as part-time retirement, could provide more opportunities to extend their working lives and ensure maintenance of their skills, experience, and know-how. In particular, part-time retirement provides them with a bridge between employment and retirement.

The following sections discuss policies raising the statutory retirement age, the creation of an actuarially neutral social security system, linking individual pension contribution to pension benefits, reforming early retirement schemes, and introducing lump-sum bonuses to delay retirement. We also look at the effect of health on participation, and the effects of stricter access to non-employment benefits, training-on-the-job and alternative employment modes.

4.2.1 Raising the statutory retirement age

A first option is an (gradual) increase in the age at which workers become eligible for retirement benefits. Some countries have already implemented this and a number of other countries are making plans to introduce it. Blöndal & Scarpetta (1997) have quantified the effects on labour force participation of an increase in the statutory retirement age of entitlement for many OECD countries. They find that an increase of one year in the age of entitlement, while leaving in place different early retirement schemes, could raise the participation rates of older workers by 1 to 2 percentage points. Using the same model they are also able to quantify what has been the effect on participation rates of older workers in the past (period 1971-1995). They find for France that

[44] Such a neutral system means that if people decide to retire later or earlier than the statutory retirement age, their social security wealth will increase or decrease, accordingly.

the reduction in the statutory age of retirement entitlement from 65 to 60 has caused a decline in the participation rate of 7.5 percentage points. For Ireland the decline in participation rate was 6 percentage points as a result of reducing the statutory age of retirement entitlement from 70 to 66.

Increasing the minimum pensionable age might not always be socially acceptable. There could be a very strong preference among the population to keep open the possibility to retire early, certainly for workers in poor health or who have been working for many years in physically or mentally demanding jobs.

4.2.2 Create an actuarially neutral social security system

A good alternative for raising the statutory retirement age would be to combine neutrality with flexibility. This would be a policy that allows people to retire at the age of their own choice but with an adjustment to the pension level so that the pension system is neutral. Earlier retirement would result in lower yearly pension benefits. Under such a system, the increase in pension benefits per year due to an additional year of work would make up for additional pension contributions and for loss of a year of benefits. Within such a neutral system, people would be given the opportunity to retire at the age of their own choice.

Blöndal & Scarpetta (1997) simulate an actuarially neutral social security system for different OECD countries. A neutral system implies that the social security wealth is independent of the retirement age and therefore does not distort the retirement decision. So if people retire later or earlier than the statutory retirement age, their social security wealth will be increased or declined accordingly. Their simulation shows that most countries could reach a participation rate for older males of at least 60%. The largest increase would be in Italy, but the highest participation rate would be obtained by the United States (70%) and Japan (89%). A similar exercise by Duval (2003) using 1999 data for almost the same OECD countries arrives at the same conclusions as Blöndal & Scarpetta. Heywood & Siebert (2009) investigate retirement age across countries and find that tax laws that make little allowance for fair pension increases if retirement is delayed partly explain the age of retirement.

4.2.3 Link pension contributions to pension benefits: moving from defined benefit towards defined contribution

Broadly, there exist two types of pension systems: defined benefit or defined contribution. The level of the pension benefit in a defined benefit system is fixed. In most countries this is a fixed percentage of last earned income or of average lifetime earnings. The retirement contributions are flexible: they are chosen in such a way that pension benefits are guaranteed. The defined contribution principle works differently. Here pension contributions are fixed and the pension benefits are flexible. This means that employees save for their own pension. The pension benefit in a defined contribution system can be either higher or lower than in a defined benefit system. The most important difference between the two systems is about who owns the pension risk. In a defined benefit system the risk is owned by the pension fund (this actually means the younger working generation). In a defined contribution system the employee bears his or her own pension risk.

The pension system can have an effect on the effective retirement age of older workers. The defined contribution principle stimulates working longer: the longer someone works, the higher

the expected pension benefits. Defined benefit pension systems do not have this incentive: the level of the pension benefit is fixed. American research by Freidberg and Webb (2003) finds that employees in a defined contribution pension system on average retire two years later than employees in a defined benefit pension system. Also Groot and Heyma (2004) show for some European countries that defined contribution pension plans are related to higher participation of older workers.

Table 22 Differences between defined benefit and defined contribution pension plans

Pension principle	Pension contribution	Pension benefit	Pension risk owner
Defined benefit	flexible	fixed	pension fund
Defined contribution	fixed	flexible	employee

4.2.4 Reforming early retirement schemes

Early retirement schemes are often employer provided schemes, initially designed as programs to induce older workers to retire early to make place for young unemployed workers (during the high unemployment period of the eighties). Over the past decades early retirement has become more widespread in many OECD countries. In as far as this trend reflects mainly the effect of higher income (as a society grows richer it prefers earlier retirement) and higher preferences for leisure, it reflects what the population wants and would not be a policy concern from a social welfare point of view. But this is not always the case and many OECD countries have recently changed their policies with respect to early retirement. A number of policy reforms are highlighted below.

CPB (2005) examines the effect of the transformation of the generous and actuarially unfair pay-as-you-go occupational early retirement schemes (VUT) into a less generous and actuarially fair capital funded pre-pension schemes for the Netherlands. This new pre-pension scheme is a collective savings arrangement in which workers save for their own early retirement. Important differences with the VUT retirement scheme are the eligibility requirements and the replacement rates. The VUT required a 10 year contribution to the scheme for full benefit, less or longer contribution has no effect. In the new pre-pension scheme a 35-40 year contribution is required for maximum benefit. If the employee has a shorter employment history, then the early retirement benefits will be lower pro rata. Another difference is that early retirement wealth is considerably lower in the new scheme (at least 10%-points). Model simulations show that the first phase of transition has already led to an average retirement postponement by 4 months for elderly workers. Postponement will become about 9 months when transition is fully completed.

Schils (2008) shows that a shift from public to private early retirement schemes will lower the incidence of earlier retirement. Yet, at the same time, early retirement might become more selective as only the higher paid are able to afford it. It is also possible that older workers use other exit routes to withdraw from the labour market (e.g. disability schemes). This is especially true for Germany and the Netherlands.

Gruber and Wise (2002) have simulated the effect of a 3-year eligibility age delay for all early exit routes (early retirement, unemployment and disability benefits) for 12 countries[45]. The simulation shows that the out of the labour force percentage of men aged 56-65 would decline in all countries (between 23 and 36 percent), but the magnitude of the effect differs from country to

[45] US, Spain, UK, Sweden, Denmark, Germany, Japan, Canada, France, Belgium, the Netherlands and Italy.

country. The effects are highest for Germany and Sweden, and lowest for Canada. The (main) reason for the differences in effects between countries is the substantial differences between the exit routes.
In another simulation they predict the effect of a change of the early retirement age to 60 and the normal retirement age to 65. Benefits taken before age 65 are reduced by 6 percent for each year before age 65. Benefits taken after the age of 65 are increased by 6 percent for each year the receipt of benefits is delayed. The replacement rate at age 65 is set at 60 percent of (projected) age 60 earnings. The simulation result shows that for some countries this change has negative effects. This is because the earliest age at which early retirement becomes available reduces when compared to the base situation (for example the US and Japan). The effect of this change is most positive for the Netherlands: a reduction of men in the out of the labour force status by 95%.

Another way to decrease the financial incentives for early retirement schemes is to decrease the replacement rates. Theeuwes and Zijl (2001) estimate that a 10% decrease of the (former) Dutch public early retirement scheme (VUT) leads to a 5-10% participation increase for older workers.

4.2.5 Introduce lump-sum bonuses to delay retirement

Another option is to introduce lump-sum bonuses to delay retirement. Van Dalen and Henkens (2002) investigate the effect of a lump-sum bonus of a half year's wage on the willingness to work up to the age of 67 in the Netherlands. They use data from a 2000 survey on 'Opinions and attitudes on aspects of population and welfare' carried out by the Netherlands Interdisciplinary Demographic Institute (NIDI). The results show that people who are planning to retire at the age of 55 or younger are the least tempted by the bonus: 72% is not expected to change their decision. The effect of the bonus is highest among people who plan to retire at 65 or 66: 42% may consider working till 67, 38% will consider working till 67 and only 20% will not change their decision. The same survey also explains the differences in planned retirement age. Those who initially chose a retirement age below the age of 60 have private financial assets earmarked for the purpose of retiring early.

4.2.6 Health of the elderly

Barnay and Debrand (2006) find that the health status of older workers in Europe has a major influence on the probability of being in employment. At the European level the employment rate of persons aged 50 and higher is much lower for persons self-reporting a health problem or severe restrictions in activities of daily living. Although the relationship between health status and unemployment may seem obvious, the causality is not. Two effects counteract each other: working conditions may reduce the health status at the end of working life (Volkoff et al, 2000), and poor health may result in early departure from the labour market (Barnay, 2005). The Barnay and Debrand study shows that there is a statistical correlation between health status and labour force participation. Reporting a restriction in activity reduces the employment rate by 36 points for men (from 63% to 27%) and by 19 points for women (from 43% to 24%). Their study shows that health status cannot explain the international differences in employment rate for men between European countries. These are more likely related to national economic idiosyncrasies and to specific national regulations governing retirement.

Kalwij and Vermeulen (2005) use similar data from an earlier period as did Barnay and Debrand (2006). Instead of using the self-reported health status, Kalwij and Vermeulen use more objective health status variables to explore the effect of health on participation decisions. Their results for

men and women are quite similar: the overall impact of five combined health status variables[46] on participation is negative in most of the 11[47] countries included in the analysis.

4.2.7 Ease of access to out-of-work benefits

Numerous studies have shown that social security systems in many countries provide very significant and strong incentives to leave the labour market before the statutory retirement age (e.g. Gruber and Wise, 2004b; Duval, 2003; Schils, 2008; Blöndal & Scarpetta, 1997). These studies also show that there is a strong correspondence between social security incentives to retire early and the withdrawal of older workers from the labour force. Abolishing early retirement incentives could raise labour force participation rates of older males (55-64) by almost 15 percentage points and substantially delay the retirement decision in most continental European countries. A very important conclusion of the studies is that removing financial incentives to early retirement would involve *both* changing the old-age pension system and the various income-support programs like early retirement schemes and disability programs. In fact, tackling the latter is an essential ingredient of a successful pension reform, as the effectiveness of a neutral old-age pension system in itself will be undermined if large incentives to early retirement are continued.

Financial incentives to retire early are higher in countries where it is easier to get access to public income support prior to the pensionable age. Disability schemes and unemployment programs can be used as ad hoc early retirement systems. Unemployment schemes are especially interesting as an ad hoc early retirement route if the job search requirement is dropped for older workers. Early retirement programs have been established in many countries, to assist older people to retire before the pensionable age. These schemes have offered relatively high replacement rates and impose an implicit tax on work. Generous private occupational pension schemes in combination with severance payments of firms have also stimulated early retirement. In recent years a large number of countries (Germany, Belgium, Italy, Finland, Netherlands, Hungary, United Kingdom and Canada) have started to tighten access to early retirement pension, disability benefits and/or unemployment-related schemes. They have reduced the generosity of unemployment benefits and have reintroduced or strengthened job-search requirements for older unemployed workers.

An OECD (2002) study shows that in many countries there are almost no incentives left for early retirement since pension reforms have been introduced and other pathways out of the labour force have been retightened for older workers. The same study also shows separate incentives from unemployment and disability systems and from private employer-employee arrangements. They have been examined for different countries, and they all have such a replacement rate that participating in these schemes is not attractive.

The figures we presented in Chapter 1 indeed reflect this growing unattractiveness of unemployment and disability schemes for early retirement purposes. In most EU countries the participation of elderly was very low until 2000, but has increased considerably since.

[46] These are: a severe health condition (e.g. cancer), a mild health condition (e.g. diabetes), restriction in activities of daily living (walking 100m), obesity (BMI) and grip strength.

[47] Germany, Belgium, Austria, Denmark, Spain, France, Greece, Italy, the Netherlands, Sweden and Switzerland.

4.2.8 Training-on-the-job for older workers

A recent European study by Fouarge and Schils (2008) examines the effects of on-the-job training for older workers. One of the questions they try to answer is whether on-the-job training can delay the moment at which workers go into (early) retirement. They find that European countries have a higher participation rate of older workers if more older workers have received on-the-job training. Estimation results show that older workers (aged 50 and over) who do not receive training on-the-job have a probability of 25% to retire. Retirement probability of older workers who did receive training is 10% lower. The effect of training on participation is higher for older workers with low education.

4.2.9 Skills and alternative employment modes for older workers

The Commission of the European Communities (1999) stresses that older people are an important potential source for future job creation. The realization of this employment objective depends on the level of aggregate labour demand and on the skills required in newly created jobs. Keeping up of improving skills of older workers is a precondition. Given future labour demand pressure employers may find it profitable to exploit the increasing numbers of older workers. This may require the use of alternative employment modes, like part-time employment or part-time pensions. Heywood & Siebert (2009), for example, find that tax laws that prevent people from working and at the same time receiving a pension partly explain the age of retirement.

4.3 Drivers for the unemployed

Policies aimed at reintegrating the unemployed can be defined as Active Labour Market Policies (ALMPs). Properly designed ALMPs improve the efficiency of the job-matching process and enhance work experience and skills, and therefore can reduce short- and long-term unemployment. Other policies might not have positive effects, such as the substitution of a regular worker by a worker eligible for an employment program, or applying programs to workers who do not really need it.

Studies on the effect of ALMPs on employment probability therefore show mixed outcomes: among different programs and also between countries. Most studies on monitoring show desirable effects on the exit rate or duration of unemployment. Studies that do not show desirable effects were targeted at people who had a good chance of finding a job on their own. Studies show that benefit sanctions and/or bonuses show positive effects on the unemployment exit rate. Job search assistance and other public employment services have mixed effects. In America, positive effects are found, but only among disadvantaged women. In the Netherlands, the effect of public employment services is not uniformly positive or negative. The same can be said about training programs and wage subsidies. Although wage subsidies are often found to be positive, most studies are incomplete. They do not take into account substitution effects and long-term effects, which makes them unsuitable for general conclusions. For training programs and wage subsidies to be effective, the policy must fit the actual problem. One-size-fits-all measures are certain to fail, while tailor-made approaches are a precondition, but no guarantee, of success.

Subsidized work in the public sector ('artificial jobs') has hardly had any positive effects. Only one study indicates that ethnic minorities in the Netherlands profit from subsidized work experience.

The 'stepping stone effect', a gradual re-entry into the labour market through temporary work, is shown to bring outsiders into permanent employment. This effect has been found in many countries, including Italy, Germany, Belgium, the UK, and the Netherlands. Temporary work includes increasingly more agency work, and evidence shows that temporary work agencies are more effective than public agencies in getting the unemployed back to work.

The following sections highlight the empirical literature on five different ALMP categories. They are very much based on a review study done by Koning et al. (2005). We also discuss the role of temporary employment (fixed-term contracts and temporary agency work) for the unemployed.

4.3.1 Employment incentives: monitoring, sanctions and bonuses

Employment incentives encompass all measures aimed at increasing the efficiency of the job matching process. These incentives are often targeted at disadvantaged groups and long-term unemployed. Compared to the other measures discussed later these are the least expensive to implement.

A first category of employment incentives is *monitoring*. Monitoring forces people to register at a monitoring office, and to visit it regularly to talk about their job search behaviour, i.e. the attempts they have made to search for a job. Monitoring aims to create incentives for people to search and accept a job or to make it less attractive to stay unemployed. Although monitoring by itself can reach these goals, it is often more effective when combined with sanctions for those who do not comply. The study by Koning et al. (2005) reviewed seven studies on monitoring (three in the Netherlands, two in the UK and two in the US). Five out of these seven studies show positive effects of monitoring on the exit rate and on duration of unemployment. The two studies that do not show positive effects of monitoring were targeted at people who already had a good chance of finding a job without monitoring.

A second category of employment incentives are *benefit sanctions*. Benefit sanctions are imposed in some countries if the monitored job search behaviour of an unemployed person is not sufficient or if he or she refuses an acceptable job offer. Although only few sanction regimes have been evaluated, studies generally find a positive effect on re-employment rates. Koning et al. (2005) examined three studies (two in the Netherland and one in Sweden). All three studies find a significant positive effect of the sanctions on the exit rate of unemployment for the different target groups. The Swedish study could also distinguish between the sanction itself and the threat of the sanction. Both the sanction and the threat have significant effects. The same study also showed that there are spill-over effects of the threat of a sanction: not only the target group reacts but also the other job searchers. Also for the Netherlands it has been established that the threat of a sanction is as effective as the sanction itself (Van der Klauw et al. (2008)).

A third category of employment incentives are *financial bonuses*. Financial bonuses can be given to people when they are able to find and accept a job within a certain time limit (usually before the end of the benefit period). Koning et al. (2005) examined four American studies on bonuses. All four studies show a significant effect on reducing the duration of unemployment. The higher the bonus the higher the effect. A cost-benefit analysis shows that bonuses are more cost-effective if

they are targeted on groups that do have more difficulties in finding a job. Bonuses might also have less desirable effects, such as changing behaviour to become eligible for the bonus. The Back to Work Allowance (BTWA) in Ireland, which entitles long term-unemployed a continued part of their unemployment benefit when they take a job, shows positive effects. 62 to 65 % of the recipients have been employed without interruption for at least three years and there are indications that the BTWA is not being paid to large numbers of people who would probably have found a job even without the program. Unfortunately, there is no information available on the reduction in unemployment payments and the effect on overall employment rates.

4.3.2 Job search assistance

Job search assistance directs job searchers to job vacancies. These job vacancies are either publicly available or are reserved for specific groups and require certain skills and experiences. Koning et al. (2005) evaluates 22 studies on the effects of job search assistance (mostly Dutch and American studies). Fourteen out of the 22 studies show positive effects on finding a job, six studies have no or even negative effects and two studies only show positive effects for certain target groups.

Most American studies are based on experiments on job search assistance and show positive effects. The American programs which are evaluated are usually targeted on disadvantaged women. The Dutch studies do not show a clear result. In three studies a positive effect on finding a job is found, two studies have no effect, and one has a (slightly) negative effect. The other three have mixed outcomes.

Card et al. (2009) perform a meta-analysis of ALMPs and find that job search assistance programs have relatively favourable short-run impacts.

4.3.3 Training programs

Training programs may consist of classroom training, on-the-job training and work–related experience. It can either provide general education or specific vocational training. The main objective is to enhance the productivity and employability of the participants and to enhance human capital by increasing skills. Training programs are the most widely used active labour market measure in Europe. Evaluation of their effectiveness leads to rather mixed results. Although there are negative and often insignificant effects, there are also several indications that training programs do increase post-treatment employment probability. Koning et al. (2005) examined 85 studies on training programs (mostly Dutch, Swedish, German and British). Less than half of them, 36 out of these 85, show a significant positive effect of training on the probability of getting a job. 32 find no or negative effect. The effects in the other 17 studies depend on the kind of target groups or training programs that is evaluated. A meta-study by Kluve (2006) examined 70 evaluations of training programs in Europe in the 1990s. His study showed that 38 programs have a positive impact on post-program employment probabilities, 14 are zero, and 18 are negative. Card et al. (2009) perform a meta-analysis of ALMPs and find that classroom and on-the-job training programs tend to show better outcomes in the medium run than in the short run.

4.3.4 Wage subsidies

The objective of wage subsidies is to encourage employers to hire new workers or to keep workers instead of laying them off. Wage subsidies can either go directly to the employer or

provide a financial incentive to the worker (often workers who are disadvantaged on the labour market).

The findings of wage subsidy evaluations are generally positive. Virtually all studies that evaluate private sector wage subsidy programs establish beneficial impacts on individual employment probability. These positive results however are not very robust, as most of the studies disregard potential substitution effects or deadweight losses.

Of the 13 studies that Koning et al. (2005) examined, 8 show significant positive effects on the probability of finding work. Two show insignificant or negative effects, and three show different effects depending on the target group under consideration. These studies only look at the short-term effects of the wage subsidy. Long term effects might differ. Martin (2000) also evaluated wage subsidies across OECD countries. He claims that evaluations of wage subsidies in Australia, Belgium, Ireland and the Netherlands have suggested combined deadweight and substitution effects amounting to around 90 per cent. This implies that for every 100 jobs subsidized by these schemes only 10 were net gains in employment.

4.3.5 Subsidized work

Subsidized jobs are often specially created jobs in the public sector to the benefit of disadvantageous job searchers. These jobs often aim to keep disadvantageous groups in contact with a work environment and aim to avoid a loss of working skills during an extended period of unemployment.

Subsidized job programs rarely have positive effects on employment probabilities for regular jobs. The evidence across studied countries[48] suggests that the effects of public sector job creation on individual employment probabilities are often insignificant, and frequently negative. Card et al. (2009) perform a meta-analysis of ALMPs and find that subsidizes public sector employment programs have the least favourable impact of the studied program types.

A study by SCP (2003) claims that subsidized employment is a very important policy for ethnic minorities in the Netherlands. A large share from the ethnic minority group can be found in subsidized jobs and according to the SCP study this improves their employment opportunities. Most participants profit from it in the long run, since the subsidized job often functions as a stepping stone to a regular job. A point of concern is the high lay off rate of these participants in regular jobs.

4.3.6 Temporary employment contracts

Temporary employment has been on the rise in many Western societies (but not all). Here we describe how temporary contracts affect the unemployed. It is often argued that the existence of temporary contracts is especially beneficial to unemployed workers, because it provides them with opportunities to gain work experience, acquire human capital and enlarge their social network. These arguments imply that temporary contracts might act as a stepping-stone towards more regular employment, as it increases the opportunities for unemployed workers to find stable employment and earn higher wages in the future.

[48] Sweden, the Netherlands, France, Germany, Switzerland and Denmark.

Research on *Australia* and *European countries* shows that a stepping-stone effect indeed exists. The main pitfall when analyzing the stepping-stone effect is that individuals who choose temporary work are not representative for the total group of unemployed workers. Individuals opting for temporary work could for instance be more eager or better qualified to find a job. Most researchers correct for these observed differences, but one cannot tackle the theoretical problem of unobserved differences.[49]

For *Germany*, Hagen (2003) finds that having a fixed-term contract increases future employment probabilities (including both fixed-term and regular contracts) and the probability of obtaining a permanent contract. It decreases the probability of leaving the labour force. Having held a fixed-term contract also increases the probability of entering into fixed-term employment once more and of holding fixed-term contracts in the future. McGinnity and Mertens (2004) find that many temporary workers in Germany – at least 40 percent – move into permanent jobs, often with the same employer. This is not the case for those with low human capital.

In *Italy*, the stepping-stone effect has been shown to exist for temporary work in general and for temporary agency work in particular. Gagliarducci (2004) finds that time spent in temporary jobs increases the probability of getting a permanent position in Italy. But whereas one temporary job experience is helpful, repeated experiences may have a negative effect in the search for stable jobs. Ichino et al. (2005) find that a temporary agency work assignment increases the probability of finding a permanent job after 18 months by 19 percentage points in Tuscany and by 11 percentage points in Sicily. These effects are also highly heterogeneous with respect to observable characteristics such as age, education and firm's sector.

For *Australia*, Chalmers and Kalb (2001) find that disadvantaged unemployed job seekers could increase the probability of finding regular employment by accepting casual work, at least during periods of relatively strong employment growth.

Research for the *UK* (Booth et al., 2002) shows that the median duration of fixed-term contracts before exits into permanent jobs is about 3 years. They find that especially young men make the transition from temporary to regular work.

In the *US* labour market the stepping stone effect is not so clear. Autor and Houseman (2002) use a policy experiment in Michigan and find that moving welfare clients who otherwise have been unemployed into temporary agency jobs does not help them to obtain steady employment. It also does not help to reduce program recidivism over the longer term. On the other hand, Amuedo-Dorantes and Bansak (2003) find that holding a contingent job does not by itself increase an individual's likelihood of being in poverty in the future, nor does it increase the likelihood of being on welfare once other characteristics have been accounted for. Instead, it is low pay and few fringe benefits, limited weekly working hours and limited weeks worked that lead to poverty and being on welfare.

Like the US, *Spain* shows little evidence of a stepping-stone effect of temporary jobs. Amuedo-Dorantes (2002) finds very low exit rates from temporary employment to permanent employment. Güell and Pertolongo (2003) draw the same conclusion. Their overall transition rate

[49] One can not tell in which direction such bias would occur. If the better equipped unemployed are more willing to take a temporary job, the effect is overestimated. If the better equipped are less willing to accept a temporary job because they aim for a permanent job, then the stepping stone effect is underestimated.

from fixed-term to permanent contracts is less than 10 percent. In contrast to that, Casquel and Cunyat (2004) show that for high-educated workers fixed-term contracts lead to permanent positions. Young workers, women, less educated workers and workers with a history of unemployment still get stuck in fixed-term contracts.

For *the Netherlands*, De Graaf-Zijl et al. (2004) and Heyma and van Klaveren (2008) show that the job search duration until a regular job is found, is not affected by accepting a temporary job in the meantime. People with a temporary agency work job have almost the same perspectives on a more permanent job as people who directly obtain a regular job. The main difference is that the persons with a temporary agency work job more frequently change jobs and spend less time in unemployment. As such, they impose less of a burden on the welfare system, and gain more job experience. These effects are the same for almost all workers, including those with a relatively weak labour market position. Men from ethnic minorities do have a high stepping-stone effect on the transition rate to regular work, but they rarely flow into temporary jobs, and hence do not benefit as often as could be.

Research on *Belgium* data also confirms the existence of the stepping stone function of temporary work. Göbel and Verhofstadt (2008) show for a sample of unemployed Flemish school-leavers that in the short run temporary employment delays the school leaver's transition to permanent employment. However, in the long run temporary employment acts as a stepping stone and decreases the duration until permanent employment. Forrier et al. (2004) confirm that it is more profitable to accept a temporary job instead of staying unemployed, since this increases the opportunities to finding a permanent job.

4.4 Drivers in practice

This section gives some best practices of drivers of participation in different countries. We make a selection of countries that have made progress in the participation among the distinguished groups. For each of these countries we give an example of policy interventions that (may) have contributed to the increase in total employment rates.

Table 23 displays the selection of countries that showed significant progress in their total employment rates. Table 24 shows the best practices that we will discuss.

Table 23 Selection of countries that have scored high on participation rates

Country	Employment rate 1990	Employment rate 2008	Increase in percentage points
The Netherlands	61.1%	77.2%	+16
Ireland	51.9%	68.1%	+16
Finland	59.7% (1995)	72.3%	+12
Sweden	70.7% (1995)	74.8%	+5
Belgium	54.4%	62.0%	+8
Latvia	59.8% (1998)	69.5%	+10
Estonia	60.3% (2000)	69.8%	+10

Table 24 Selection of drivers in practice

Country	Target group(s)	Drivers
The Netherlands	women, in part-time elderly	Cultural attitudes, education, child care Financial incentives early retirement
Ireland	women	Moving towards equal tax treatment for married women. Still to improve: availability and subsidizing child care, more equal tax system
Finland	(long-term) unemployed	Labour market training
Sweden	women	Equal tax treatment for married women
Belgium	elderly (long-term) unemployed	Closing early retirement routes Subsidized jobs (service cheques)
Latvia & Estonia	elderly	Defined contribution pension scheme. Raising the statutory retirement age (especially for women), introduce funded pension system

We discuss, in turn, some 'best practices' for women, for the elderly and for the (long term) unemployed.

4.4.1 Best practices for women

Sweden: equal tax treatment for married women

Married women are effectively taxed more heavily than men and single women in most OECD countries. Sweden is a good example of the transfer from joint to separate and equal taxation leading to more participation by married women (most probably in combination with other family-friendly policies).

The Netherlands: high (part-time) participation, cultural attitude & child care

The past two decades have witnessed an ongoing increase of labour market participation of women in the Netherlands. A cultural explanation for this change is a shift in the dominant ideology of the 'best' way to organize work and care in society. According to the dominant conservatism in the 1950's and 1960's the man should be the principal breadwinner, whereas the women should be responsible for caring activities (at home). This is the so-called "male breadwinner/female home caretaker model". In the past decades this dominant conservative model has changed in the direction of a "male breadwinner/female part-time caretaker model". This change is reflected in the increase of female (part-time) labour market participation. Other causing factors are amongst others the higher average educational level of women and the improvement of child care facilities.

Ireland: moving towards separate taxation

Also in Ireland women's labour force participation have risen dramatically during the last two decades, particularly during the 1990's. It has been shown that 90% of total employment growth is due to the increase in (part-time) female participation. Unfortunately, research has not yet demonstrated why. In the last decade, reforms in the Irish tax system have probably stimulated the participation of married women. Before the reform married couples were taxed jointly. Tax bands were totally transferable between spouses in case of a non- or very low earning (female) partner. In 2000 a move towards greater independence of taxation was introduced by restricting the extent to which tax bands are transferable between spouses. This would stimulate the participation of the lowest earner, in most cases the female.

Although the reform has taken place, the income tax system still contains elements of individual and joint taxation. Therefore, marginal tax rates on second earners are higher than they need to be. This may explain why a relatively small number of second earners work full time. The government may consider moving to complete individual taxation to make the system simpler and more neutral. Besides reforming the tax system, Ireland could stimulate female participation for example by improving the availability of child care (Cournède, 2006).

4.4.2 Best practices for older workers

Belgium: closing early retirement routes and reforming retirement incentives

The Belgian government has recently taken a series of steps to discourage early exits from the labour market and encourage re-entry of those out of activity. These measures included the closing of some early-retirement paths as well as activation measures in the form of individualized road maps for returning to work, follow-up interviews and possible sanctions in case of insufficient job search activities. Since 1997, the compulsory age of retirement for women has gradually been raised from 61 in 1997 to 65 in 2009. A recent reform to retirement incentives was introduced by benefitting workers working beyond the age of 62 or beyond 44 years with a pension supplement of 2 euro per day worked. Although Belgium has moved forward, it still needs to put more emphasis on making work pay (e.g. through the unemployment benefit system).

The Netherlands: reforming occupational early retirement schemes

The increase in participation among older workers in the Netherlands has partly been caused by reforming the occupational early retirement scheme (VUT). A generous and actuarially unfair early retirement scheme has been changed into to a less generous and actuarially fair capital funded pre-pension scheme. This shift has caused a lower incidence of early retirement.

Sweden: pension reform

In 1999 a major reform of the Swedish pension reform has taken place. The pension system before 1999 consisted of a state pension of 60% of past earnings and was financed on a pay-as-you-go principle. The state pension could be supplemented by a work-related pension, which was also based on past earnings. The work-related pensions for civil servants were financed on a pay-as-you-go basis, while the work-related pensions for private workers were funded. The pension reform altered the state pension in a defined-contribution pension. The contribution is set at 18.5% of the pension base, and the benefit depends on the accumulated contributions, the life expectancy of the retiring cohort and economic growth. The retiring age is flexible, but the loss is twofold for the individual. Leaving early implies lower pension capital and a longer period of payments. The pension reform is probably one of the reasons why participation of older workers has increased over the past few years, and why it is the highest of all countries studied.

Latvia & Estonia: pension reform and increasing retirement age

The Baltic countries recently reformed their pension systems and increased the retirement age. Latvia made the most radical reform: they moved from pay-as-you-go to defined contribution pension. Estonia opted for a less radical change in the pension system: they added certain income-related elements to their pay-as-you-go pension system. A wanted side-effect of reforming the pension system was to encourage working in the formal rather than in the informal economy, since pension payments were not very high because of a bad contribution discipline. In both countries the statutory pension age has been increased and existing legislation will raise it further in the years to come, especially for women. Latvia and Estonia have also begun to

introduce funded pension systems, a so-called "third pension tier". This option has until now been followed by less than 10% of the workers in Estonia and Latvia.

4.4.3 Best practices for the (long-term) unemployed

Belgium's subsidized service cheques

Since the beginning in 2003, private household workers in Belgium can be paid for their services with a 'household service cheque'. These cheques have three objectives: job creation, service creation, and tackling undeclared work. In five years' time, around 90,000 jobs have been created for (long-term) unemployed people, people with low education and ethnic minorities. It has been shown that most employees eventually find a fixed job. Around 60% starts with a fixed contract immediately. Temporary work agencies play an important role in matching supply and demand of the service cheques. Besides Belgium also Austria and France use service cheques.

Finland: labour market training

Since the 1970s, labour market training and subsidized employment have been key method of active labour market programs in Finland. During the 1990s the number of labour market trainees reached 90,000 and because of an increase in the demand for training only about half of all applicants were accepted to training. An empirical study (Nätti et al. (2000)) showed that participation in training produced more months in employment during three subsequent years compared to non-participation.

4.5 Summary

Table 25 presents a schematic overview of the policy programs and incentives discussed in section 4.1 and provides an indication of the expected employment effect of each program.

Table 25 Increasing participation of women

	Employment effect on target group	
Costs and provision of child care	+/0	US, Canada, +; the Netherlands, Italy, UK, Germany, France no/small effect Availability more important than price
(Paid) parental leave	+/- -	Europe mixed, depends on type of institution. Might strengthen connection to labour market. But longer leave means lower return; larger effect for full-timers. Negative effect on wages.
Equal tax treatment for married women	++	17 countries (the Netherlands, UK, Belgium, Australia, Germany, Japan, New Zealand, Ireland, Austria, France, Canada, Sweden, Denmark, US, Spain, Portugal, Finland)
Part-time work opportunities	+	Denmark, France, the Netherlands Many women want (only) part-time jobs
Temporary agency work	+	UK, US, Spain Flexibility in combining work & family
Education	+	Higher educated women participate more often and more hours/week
Cultural attitudes	+/-	part-time preference: more women in East-EU, less hours in west-EU.
Gender discrimination	-	Female jobs & gender pay gap; 'glass ceiling'

+ = positive, - = negative, 0 = zero, +/- = mixed

Among possible incentives aiming to improve better balance of work and family responsibilities, *equal tax treatment for married women* seems to have the most positive effect on the female employment rate. Married women are effectively taxed more heavily than men and single women in most OECD countries. Sweden is a good example of where the transfer from joint to separate

and equal taxation has led to more participation by married women (most probably in combination with other family-friendly policies). Jaumotte (2003) has tested this hypothesis. She shows for seventeen OECD countries that women will participate more when they are being taxed separately and equally compared to men.

Incentives concerning *child care and (paid) parental leave* have mixed effects in different countries. For the US and Canada a reduction of child care costs would stimulate labour force participation of women, but for the Netherlands, Italy, United Kingdom, Germany and France a reduction of child care costs alone is not enough to change employment rates of women. Availability of child care centres is more important in those countries. (Paid) parental leave shows mixed effects of the re-entrance behaviour of women. For the US and Canada many studies show that (unpaid) parental leave results in lower wages and worsens job opportunities. For Europe the effect seems to depend on the type of welfare state. Social-democratic welfare states often encourage the combination of work and caring responsibilities (more) than liberal welfare states. These states show higher re-entrance rates after taken parental leave, because often there is a guaranteed return to the same job. But the re-entrance probability depends on the length of the leave: the longer the leave, the lower the return. Part-time working mothers have a higher re-entrance probability than full-time working moms. Re-entering after taken parental leave does seem to lower wages.

Flexible contract types for women have mainly positive effects on their employment probability. An increase in part-time work opportunities would most likely raise female labour force participation. Studies on temporary agency work show positive effects. Agency work is often more flexible and provides more opportunity to combine work and family responsibilities, resulting in a higher female labour force participation. Women with fixed-term contracts tend to postpone motherhood. As such, there is a by-effect of increased participation.

Higher *education* levels are positively correlated with the employment probability of women, in particular full-time employment.

Cultural attitudes have an important effect on female employment rates. In countries such as the Netherlands, women prefer to work part time, whether they have children or not. It would be very hard to stimulate these women to switch to working full time. On the other hand, we will show in Chapter 5 that part-time work is not yet an important part of the labour market in Eastern Europe, and that female participation in these countries is also below average. Convergence of cultural attitudes might in this case have a positive effect, at least for the women that are only looking for a part-time job.

Gender *discrimination* in pay and promotion opportunities for women negatively affects employment opportunities for women. Much of the gender pay gap is caused by typical 'female jobs' with relatively low wages (Berkhout et al. (2008)). Some countries have introduced gender-specific anti-discrimination laws, which seem to effectively lower gender pay gaps and have a positive influence on the participation of women.

Table 26 presents a schematic overview of the policy programs and incentives discussed in section 4.2 and provides an indication of the expected employment effect of each program.

Table 26 Increasing participation of older workers

	Employment effect on target group	
Raising the statutory retirement age	+	many OECD countries (Australia, Canada, Japan, Norway, Sweden, UK, Germany, Ireland, Portugal, Finland, France, Italy, the Netherlands, Spain, Belgium)
Creating an actuarially neutral social security system	+	many OECD countries (Austria, Norway, New Zealand, Belgium, Korea, Luxembourg, Australia, Canada, Japan, Norway, Sweden, UK, US, Germany, Ireland, Portugal, Finland, France, Italy, the Netherlands, Spain, Iceland)
Linking pension contributions to pension benefits	+	European countries (Belgium, Germany, Italy, the Netherlands, UK, Sweden, Denmark) & America
Reforming early retirement schemes (various)	+	the Netherlands, US, Spain, UK, Sweden, Denmark, Germany, Japan, Canada, France, Belgium, Italy
Introducing lump-sum bonuses to delay retirement	+	the Netherlands
Stricter access to non-employment benefit systems	+	Germany, Belgium, Italy, Finland, the Netherlands, Hungary, UK, Canada Less misuse
Training-on-the-job	+	EU; lowers outflow
Alternative employment modes (e.g. part-time retirement)	+	no 'all-or-nothing' decision; knowledge transfer to younger colleagues
Health	++	many European countries (Germany, Belgium, Austria, Denmark, Spain, France, Greece, Italy, the Netherlands, Sweden, Switzerland)

+ = positive, - = negative, 0 = zero, +/- = mixed

All the *financial* incentives we have studied, aimed at encouraging older workers to postpone retirement and thereby increase participation rates, have positive effects. Blöndal & Scarpetta (1997) show for many OECD countries that raising the statutory retirement age by one year, while leaving in place existing early retirement schemes, could raise the participation rates of older workers by 1 to 2 percentage points. They also show that an actuarially neutral social security system could increase the participation rate for older males to at least 60%. Duval (2003) supports this conclusion with more recent data. American and several European countries benefit from linking the pension contributions to pension benefits (Freidberg and Webb, 2003; Groot and Heyma, 2004).

Reforming *early retirement schemes* has positive effects on the participation rate of older workers. Different reforms have been discussed: a change in generosity, actuarial fairness, a shift from public to private provision of pensions, a delay in eligibility age, and a decrease in the replacement rate. A study on the effects of a lump-sum bonus in the Netherlands established that older workers will participate longer.

The *health* status of older Europeans has a major influence on the probability of being in employment (Barnay and Debrand, 2006; Kalwij and Vermeulen, 2005). People with a health problem or severe restrictions in activities of daily living have a much higher probability of being out of the labour market. Restricting access to *non-employment benefit systems* reduces early retirement and makes older workers participate longer.

Training-on-the-job for older workers, in particular those with lower education, reduces the probability to retire from 25% to 10% (Fouarge and Schils, 2008). For older people alternative employment opportunities could provide more opportunities to extend their working lives and ensure maintenance of their skills, experience and know-how. This will provide them with an employment bridge between employment and retirement.

Table 27 presents a schematic overview of the policy programs and incentives discussed in section 4.3 and provides an indication of the expected employment effect of each program.

Table 27 Increasing participation of the (long term) unemployed

	Employment effect on target group	
Monitoring	+	the Netherlands, UK, US. More effective if combined with bonus/malus
Benefit sanctions	+	the Netherlands, Sweden. Threat of sanction has positive spill-over effects
Financial bonuses	+	US proportional effect. Sometimes negative side-effects.
Job search assistance (public employment services)	++/0/-	No general conclusions possible. Mostly positive, but also negative. US positive, but very specific groups. the Netherlands mixed.
Training programs	++/0/-	No general conclusions possible. the Netherlands, Sweden, Germany, UK. Mostly positive, but also negative. Most widely used labour market policy in EU.
Wage subsidies	+/-	More comprehensive studies needed. Substitution effects and deadweight losses are high.
Subsidized work in the public sector	-	the Netherlands: if present, stepping stone-effect is only short-term. Many countries: zero or negative.
Temporary work	+	Australia, Germany, Italy, UK, the Netherlands, Belgium clearly positive stepping stone. Italy also temporary agency work. US unclear. Spain only effect for higher educated. Spain is odd case: very much fixed term contract, very low agency.

+ = positive, - = negative, 0 = zero, +/- = mixed

Most of the *financial* drivers designed to reintegrate job searchers and the unemployed have mixed effects on the employment probability, as far as scientific literature can tell. Various reintegration policies such as monitoring, benefit sanctions, financial bonuses, job search assistance, training programs, wage subsidies and subsidized work have been reviewed.

Most studies on *monitoring* show desirable effects on the exit rate or duration of unemployment. Studies that do not show desirable effects were targeted at people who had a good chance of finding a job on their own. All studies on benefit sanctions and/or bonuses show positive effects on the unemployment exit rate.

Job search assistance has mixed effects: in America positive effects are found but these are restricted to disadvantaged women only. In the Netherlands the effect of job search assistance is not uniformly positive or negative on employment. The same can be said about training programs and wage subsidies. Although wage subsidies are often found to be positive, most studies are incomplete. They do not take into account substitution effects and long-term effects, which makes them unsuitable for general conclusions. For training programs and wage subsidies to be effective, all that matters is how well a policy fits the actual problem. One-fits-all measures are certain to fail, tailor-made approaches are a precondition but no guarantee for success.

Subsidized work in the public sector does not seem to have any positive effects. The exception is the study of SCP (2003) which mentions that ethnic minorities in the Netherlands profit from subsidized work experience.

The *stepping stone effect* is the effect that people from the labour market margins are brought into permanent employment, through a gradual entry via temporary jobs. This effect is indeed found in many countries, i.e. Italy, Germany, Belgium, UK and the Netherlands. For the US labour market the stepping stone effect was not so clear, but negative labour market effects have been disproved. In Spain a positive effect has only been found for the higher educated. Less educated and long-term unemployed seem to get stuck in a spell of fixed-term contracts. Spain is an odd case, because the importance of fixed-term contracts in the current labour market is the highest in Europe (over 30%), with only Poland coming close. Flexibility here is more external flexibility: at every end of the term an employee has to renegotiate a contract with a (possibly different) employer. In Germany and the Netherlands the labour market is a bit different, because a larger share of 'temporary work' consists of agency work, implying that more stakeholders are present. Both the employee and the agency have incentives to reallocate the employee into a new job, and the agency thus acts as a sort of intermediary between employer and employee. It is important to keep such differences in mind when the heterogeneous concept of 'temporary work' is used.

5 Modern labour relations

Although the 'traditional' labour contract is still very common, in many countries important other forms of labour relations have developed during the last two decades. The report starts with a closer look at these new labour market trends, especially those concerning 'modern' labour relations and flexibility. The most commonly mentioned non-standard forms of labour are part-time work and temporary work. Additionally, this chapter also investigates the role of temporary agency work. While all three factors are often labelled as indicators of 'labour market flexibility', important differences exist between part-time work, temporary (fixed-term) contracts and temporary agency work.

Part-time work has strong socio-cultural explanations, and is very popular in some countries (see section 5.1). Part-time work does not increase flexibility per se: it might increase flexibility from the employees point of view, but it might just as well decrease flexibility from the employers point of view. Temporary work -in the commonly used Eurostat definition- is a heterogeneous mix of mainly fixed-term contracts and temporary agency work (see section 5.2). The very different characteristics of these components for the employee (and the lack of Eurostat statistics on temporary agency work) justify a separate analysis of the latter (see section 5.3).

5.1 Part-time work

First let us note that different definitions of 'part-time work' are used by Eurostat and OECD. This difference stems from compatibility issues: OECD recalculates most national statistics to improve comparability[50], based on a definition of part-time work as '*usually working less than 30 hours per week in their main job*'. Eurostat does no recalculation, so definitions differ slightly between national Statistics offices.[51] Therefore, if the only interest is to compare part-time levels between countries the OECD figures are preferred. But when focus is on the development of part-time work over time Eurostat figures are just as useful. The latter have the advantage that they are more frequent, more recent and that they have more detail on the characteristics of part-time employment. They can tell what the main reasons are for working part-time, thereby revealing structural differences between national labour markets. Is part-time work the preferred choice of employees, or is it a second-best choice forced by lack of fulltime jobs? These are the kind of questions that can only be answered using the more detailed Eurostat data. For completeness we show both forms of part-time work, according to OECD definition in Table 28 and according to national Eurostat definitions in Table 29. In most countries the OECD produces lower numbers than Eurostat; the largest difference between both definitions exists in Sweden and the Netherlands. Apparently in these countries relatively many people work for days per week (normally 32 hours).

[50] OECD (2002).

[51] For most countries part-time is a self-reported variable, based on the judgement of the respondents themselves. In the Netherlands, Iceland and Norway, part-time is determined on the basis of whether the usual hours worked are fewer than 35. In Sweden this criterion is applied to the self-employed persons as well. "It is impossible to establish a more precise distinction between full-time and part-time employment, since working hours differ from one Member State to the next and from one branch of activity to the next."

Table 28 Part-time employment according to OECD definition (less than 30 hours/week)

	1983	1990	1995	2000	2005	2006	2007	2008
Austria			11.1	12.2	16.0	17.3	17.2	17.6
Belgium	9.8	13.5	14.6	19.0	18.5	19.3	18.3	18.7
Germany	13.4	13.4	14.2	17.6	21.8	22.0	22.2	22.1
Denmark	20.6	19.2	16.9	16.1	17.6	18.1	17.7	18.0
Spain		4.6	7.0	7.7	11.3	11.1	10.9	11.1
Finland		7.6	8.7	10.4	11.2	11.4	11.7	11.5
France	10.3	12.2	14.2	14.2	13.4	13.3	13.4	13.4
Greece	7.2	6.7	7.8	5.5	6.1	7.5	7.8	7.8
Ireland	8.0	10.0	14.3	18.1	19.6	19.9	20.3	21.0
Italy	8.0	8.9	10.5	12.2	14.6	14.9	15.1	16.3
Luxembourg	7.3	7.6	11.3	12.4	13.9	12.7	12.7	12.7
Netherlands	18.5	28.2	29.4	32.1	35.7	35.5	36.1	36.1
Portugal		7.6	8.6	9.4	9.8	9.3	10.0	9.7
Sweden		14.5	15.1	14.0	13.5	13.4	14.4	14.4
United Kingdom	18.4	20.1	22.3	23.0	23.4	23.3	23.0	22.9
Czech Republic			3.4	3.2	3.3	3.3	3.5	3.5
Hungary			2.8	2.9	3.2	2.7	2.8	3.1
Poland				12.8	11.7	10.8	10.1	9.3
Slovak Republic			2.3	1.9	2.6	2.5	2.6	2.7
Switzerland			22.9	24.4	25.1	25.5	25.4	25.9
Norway		21.8	21.4	20.2	20.8	21.1	20.4	20.3
Turkey		9.3	6.4	9.4	5.8	7.9	8.4	8.4
Canada	16.8	17.0	18.8	18.1	18.3	18.1	18.2	18.4
Iceland			22.5	20.4	16.4	16.0	15.9	15.1
Japan	16.1	19.2	20.1	22.6	18.3	18.0	18.9	19.6
Korea		4.5	4.3	7.0	9.0	8.8	8.9	9.3
New Zealand		19.7	20.9	22.2	21.7	21.3	22.0	22.4
United States	15.6	14.1	14.0	12.6	12.8	12.6	12.0	12.2

Source: OECD Employment Outlook (2009)

When looking at the incidence of part-time work in Europe in Table 28 we see that the Netherlands take a special position. More than 36% of all employed Dutch persons are working in a part-time job of less then 30 hours/week, mostly women. Also the Swiss and UK workforce have a relatively large share of part-time workers. At the other side of the Atlantic part-time rates are fairly stable. Overall the use of part-time work in Europe has increased during the last decades. In the Eastern European countries (Slovakia, Hungary, Czech Republic) part-time jobs are found only incidentally. Apparently part-time work is not (yet) an important aspect of the labour market structure in these countries. Table 29 shows that the above division still holds true when the Eurostat definitions are applied, be it that the shares itself are often higher.

Table 29 Part-time employment according to Eurostat definition

	1983	1990	1995	2000	2005	2006	2007	2008	2009
Austria	-	-	13.3	16.7	20.4	21.5	22.0	22.7	24.1
Belgium	7.9	10.9	13.6	20.6	21.7	22.9	22.5	22.4	23.0
Germany	12.2	14.9	16.0	19.1	23.6	25.4	25.6	25.5	25.5
Denmark	23.6	22.7	21.4	21.4	21.5	22.9	23.6	23.9	25.1
Spain	-	4.8	7.2	8.0	12.6	12.1	11.8	11.9	12.8
Finland	-	-	11.4	11.9	13.2	13.0	13.0	12.3	12.7
France	9.4	11.8	15.5	16.8	17.0	17.2	17.2	16.9	16.9
Greece	5.7	3.6	4.4	4.4	4.6	5.6	5.5	5.2	5.8
Ireland	6.5	8.0	12.0	16.6	16.8		17.6	18.0	20.4
Italy	4.2	4.7	6.4	8.7	12.6	13.2	13.3	14.4	14.2
Luxembourg	6.6	6.8	7.9	11.2	17.4	17.1	17.5	16.3	17.0
Netherlands	21.0	31.3	37.0	41.0	45.8	45.8	46.3	46.7	47.6
Portugal	-	5.0	6.3	8.1	8.4	8.1	8.9	8.8	8.6
Sweden	-	-	25.4	21.8	24.3	24.3	24.3	26.1	26.0
UK	18.2	20.8	23.2	24.4	24.6	24.3	24.2	24.2	25.0
Cyprus	-	-	-	7.6	7.5	6.7	6.1	6.6	7.3
Czech Rep.	-	-	-	4.8	4.3	4.4	4.4	4.3	4.8
Estonia	-	-	-	6.3	6.8	7.1	7.0	5.6	10.6
Hungary	-	-	-	3.4	4.1	3.9	3.8	4.1	5.2
Lithuania	-	-	-	8.9	6.3	8.6	7.9	6.3	8.2
Latvia	-	-	-	10.5	8.9	6.0	6.4	5.7	7.6
Malta	-	-	-	6.1	8.8	9.6	10.7	11.4	11.0
Poland	-	-	-	9.3	9.7	9.0	8.5	7.6	7.8
Slovenia	-	-	-	5.3	7.8	8.4	8.8	8.1	9.7
Slovakia	-	-	-	1.8	2.3	2.7	2.6	2.1	3.8
Bulgaria	-	-	-		2.3	1.9	1.7	1.9	2.3
Romania	-	-	-	14.0	9.6	8.6	8.6	8.8	8.6
Switzerland	-	-	-	29.3	32.2	32.4	32.5	33.3	-
Norway	-	-	27.3	25.7	28.0	28.5	27.7	27.8	28.3
Turkey	-	-	-	-	-	7.3	8.1	8.9	10.6
EU27	**-**	**-**	**-**	**15.8**	**17.4**	**17.7**	**17.7**	**17.7**	**18.2**
EU25	-	-	-	15.9	18.0	18.3	18.3	18.3	18.8
EU15	-	-	15.6	17.5	19.9	20.3	20.4	20.5	21.0

Source: Eurostat LFS (lfsq_eppga, 2009)

Apart from the Netherlands and Switzerland a second group of 'part-time countries' can be distinguished in Table 29, namely Denmark and the UK (and probably Sweden). In 1983 in these two countries about 20% had a part-time job, just as much as in the Netherlands at that time, but far more than in the rest of Europe. But part-time employment did not really become more popular since then in the UK and particularly Denmark, so that in 2009 still 25% of all jobs are part-time jobs.

In the other Western European countries working part-time wasn't so common in the beginning, although among these 'fulltime countries' there are some interesting developments in the last 10-15 years. A steady growth from 11-16% to 17-23% in the Central European countries (Austria, Belgium, France, Germany); a more modest growth from 5% to 10% or more in the Southern European countries (Italy, Portugal, Spain), and a special case for Ireland that was 'promoted' from the Southern European level to the Central European level during the nineties. Between

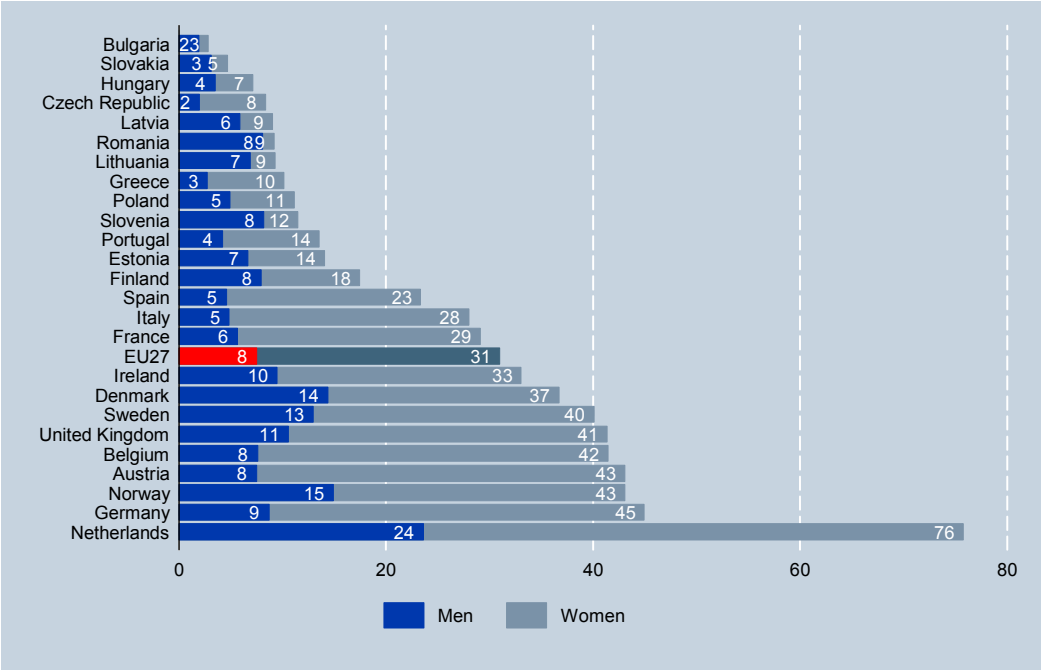
1999 and 2000 the structure of the Eurostat Labour Force Survey suffered some serious changes. This hampers comparability of the period before and after the structural change, specifically in the time series of Belgium and Portugal.

5.1.1 Characteristics of part-time work

Gender

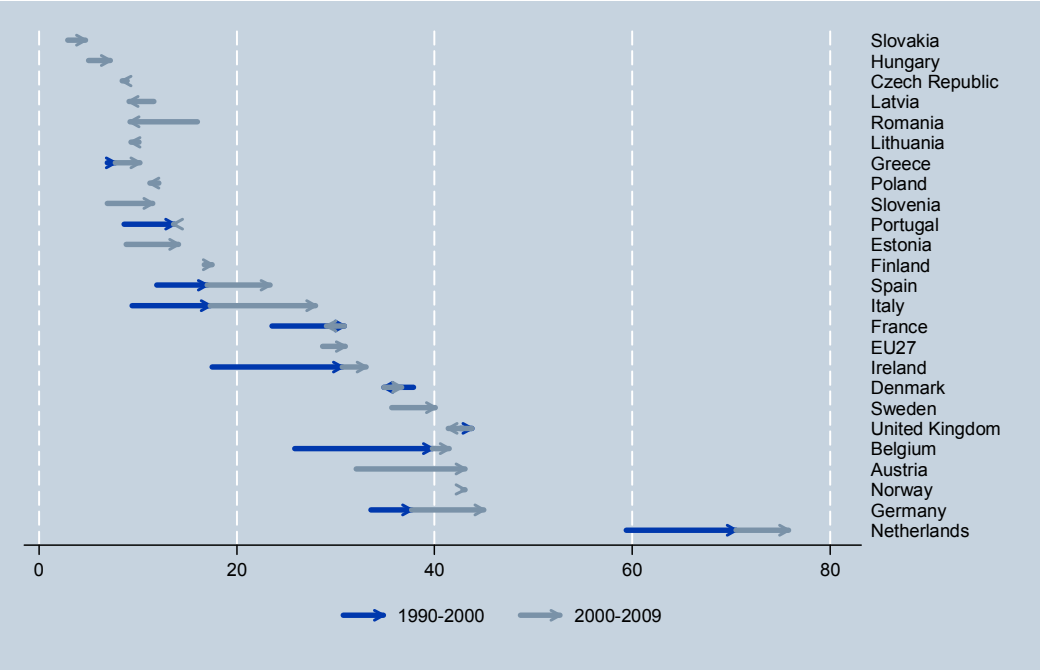
When looking at gender differences in the popularity of part-time work, Figure 32 demonstrates clearly that part-time work is a female phenomenon. Denmark and the Netherlands are the only countries where the part-time rate for men comes somewhere near 1/3 of the female part-time rate. Dutch female employment is not only relatively high in 2009, it has also increased relatively fast since 1990 (see Figure 33). This confirms that most of the increasing female participation during the nineties was through women entering the labour market in part-time jobs (remember Figure 4). On the other hand, in the Scandinavian countries many women went from part-time jobs to full-time jobs, so there was no net increase in part-time work there.

Figure 32 Part-time work is a female phenomenon, 2009



Source: Eurostat LFS (lfsq_eppga, 2009).

Figure 33 Development of female part-time work, 1990-2000-2009

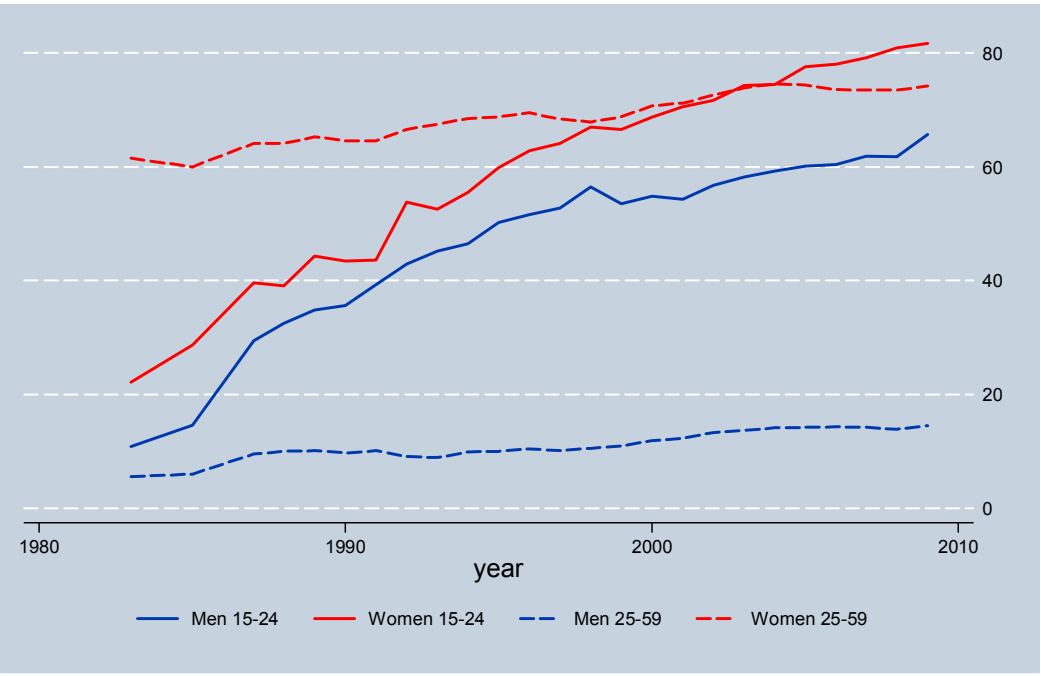


Source: Eurostat LFS (lfsq_eppga, 2009).

Age

Another characteristic of part-time work is that it is more popular among young people. That might be because they are still in education, because they like the flexibility more or because it is just all they can get without qualifications.

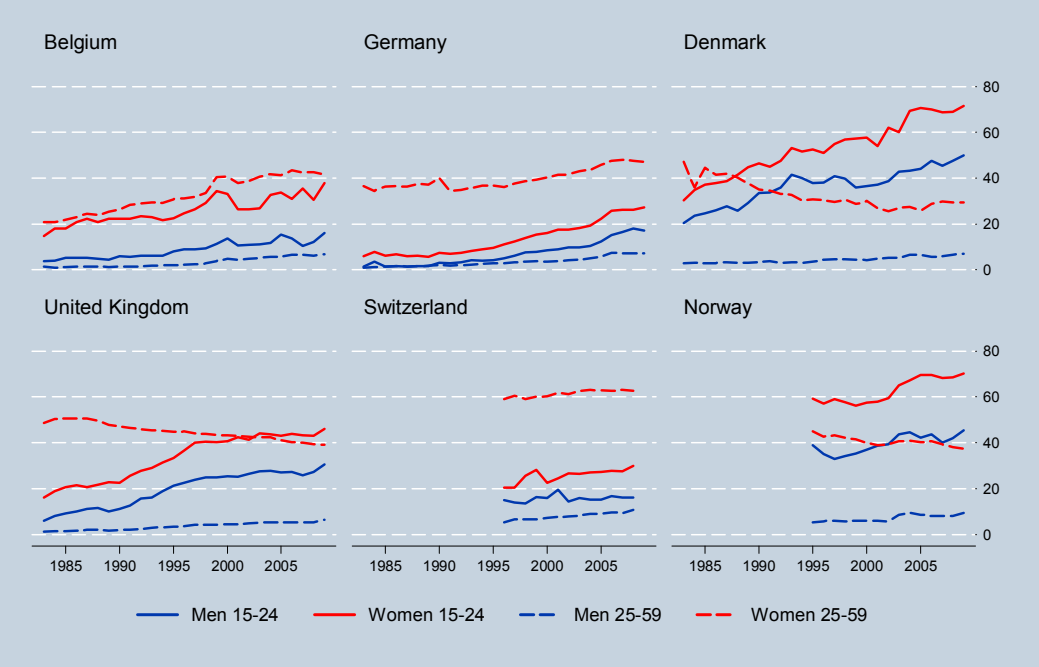
Figure 34 Part-time growth strongest amongst youth (NL as clearest example)



Source: Eurostat LFS (lfsq_eppga, 2009).

A clear example is given in Figure 34, where part-time rates are plotted by sex and age group for the Netherlands. Although young women are more often in part-time jobs than young men, the difference between the sexes is far less than it is for the other age groups. Figure 35 shows that in other countries similar patterns can be found: a rising part-time share among youth. But for employees aged 25-59 such a rising share is not seen everywhere. In fact, in Denmark, UK and Norway part-time became less common among women in this age group, in contrast to Belgium and the Netherlands.

Figure 35 Part-time growth in other countries



Source: Eurostat LFS (lfsq_eppga, 2009).

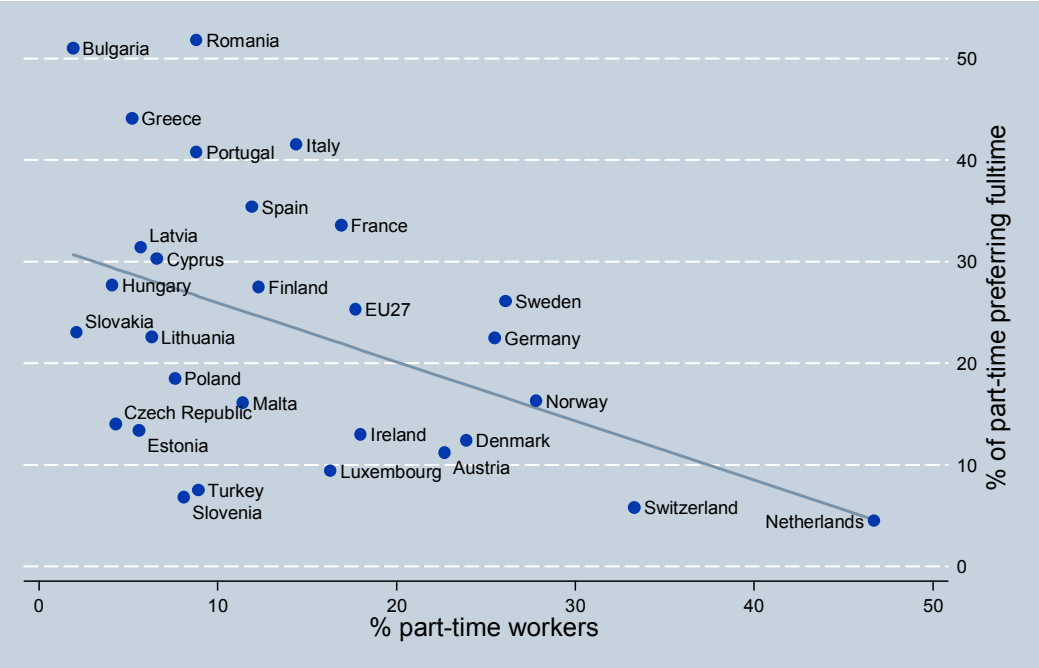
Preferred choice or not ?

Several reasons can explain why people work in a part-time job instead of in a 'traditional' fulltime job. Some people might be looking for a fulltime job but are not able to find it, while others might prefer to work part-time in the first place. These people might be in education, taking care of young children or performing other household tasks. If an employee wants a fulltime job but cannot find it, part-time work is considered as second choice. If an employee does not want to have a fulltime job at all, part-time work is considered as preferred choice.

The high and rising share of part-time work in some countries together with rising participation suggest that not all (new) employees are preferring fulltime jobs. Figure 36 confirms this proposition; the higher the share of part-time workers in a country (x-axis), the lower the share of people actually preferring fulltime jobs (y-axis).[52] Thus, differences in part-time rates between EU countries are mainly employee-driven. They are not so much related to economic differences but rather to cultural differences.

[52] The lineair relation is statistically significant with t=-2.8; p=0.009; R-squared=0.21.

Figure 36 Working part-time is a deliberate choice



Source: Eurostat LFS (lfsq_eppga, lfsq_eppgai, 2009).

Skill differences

If we would look at the skill distribution of part-time workers, we would see that the Mediterranean countries are characterized by high shares of low-skilled part-timers. But the share of low-skilled workers among part-timers is not bigger than it is among fulltime workers. Therefore it is better to focus on the incidence of part-time work *within* each skill group.

In Table 30 we see the share of part-timers for each educational level. When we compare each skill group with the average part-time share in a country, we see that in all countries part-time is less frequent among high-skilled and more frequent among low-skilled. So part-time work is clearly correlated with educational level: the higher the education of an employee the lower the probability that he will work in a part-time job.

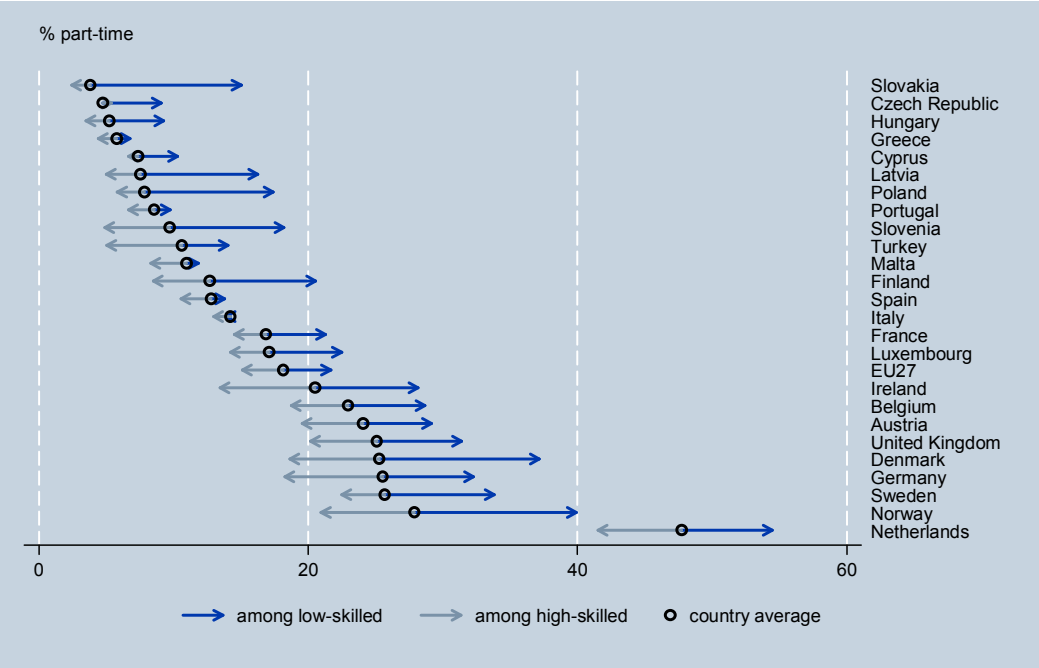
Table 30 Part-time work by skill level, (% of total employment)

	low	middle	high	Average
Austria	20	65	16	29.2
Belgium	27	42	31	28.7
Germany	18	63	20	32.3
Denmark	39	37	24	37.2
Spain	44	27	29	13.8
Finland	26	50	24	20.6
France	29	43	28	21.3
Greece	40	40	20	6.8
Ireland	28	45	27	28.1
Italy	36	49	16	13.9
Luxembourg	24	43	33	22.5
Netherlands	29	43	28	54.5
Portugal	75	12	13	9.7
Sweden	22	49	29	33.8
United Kingdom	25	47	28	31.4
Cyprus	32	34	34	10.3
Czech Republic	10	71	19	9.1
Estonia	10	53	38	11.7
Hungary	21	63	16	9.3
Lithuania	12	68	20	16.4
Latvia	21	60	18	16.3
Malta	65	22	14	11.8
Poland	18	63	19	17.4
Slovenia	23	64	12	18.2
Slovakia	15	74	11	15.0
Bulgaria	33	54	14	5.1
Romania	55	44	1	21.2
Norway	29	45	26	39.9
Turkey	83	9	8	14.1
EU27	**27**	**49**	**23**	**21.7**

Source: SEO calculations based on Eurostat LFS (lfsq_epgaed, 2009).

The results from this table are copied graphically in Figure 37. The black dot represents the countries overall share of part-time employees, as taken from Table 29. The dark blue arrow shows how far away the part-time share among low-skilled is from the overall part-time share; the grey arrow shows how far away the part-time share among high-skilled is from the overall part-time share. If the arrow points to the right, the group has an over-representation of part-time workers. If the arrow points to the left, the group has an under-representation of part-time workers. As nearly all blue arrows are pointing to the right, we can see directly that part-time work is more popular among low-skilled. This effect is most prominent in Poland, Norway and Denmark. At the same time we see that all the grey arrows are pointing to the left, indicating that high-skilled are less frequently working part-time.

Figure 37 Part-time work is more prominent among low-skill workers



Source: Eurostat LFS (lfsq_epgaed, 2009)

5.2 Temporary work (fixed-term contracts)

Compared to part-time work, an even more flexible form of labour is temporary work. But what exactly is temporary work? In the Eurostat's definition 'temporary work' is a heterogeneous variable: it does include employees working for a temporary work agency but consist mainly of fixed term contract workers, hired directly by the employer. Unfortunately there is often no distinction possible between these different forms of flexible labour, although their characteristics differ strongly. Eurostat's Labour Force Survey (LFS) does not measure agency work separately; so in the current chapter we look only at 'temporary work in general' using Eurostat data, while in the next section we focus specifically on 'temporary agency work' using other sources.

Fixed term contracts versus agency work

That a difference exists between both concepts can be seen in Figure 38 below, where the relative size of agency work is compared with the relative size of temporary work in each country.[53] It is clear that the size of temporary work in general is not determined by the size of temporary agency work: in that case the data points would line up from the bottom left to the upper right.[54] The implication of the graph is that national differences in 'temporary work in general' (as defined by Eurostat and used in the rest of section 5.2) are not caused by differences in temporary agency work but by differences in fixed term contracts. Put differently: the concept of

[53] Unfortunately the definitions are somewhat different, because they are taken from different sources. This means that the absolute numbers on the axes can not be compared directly. The agency work penetration rate for example is measured in full-time euivalents in most countries, whereas the percentage of temporary workers is calculetd by number of persons.

[54] In fact, if the graph suggests a negative relation but that is not statistically significant without the extreme outlier UK. Statistically there is no relation at all.

'temporary work in general' is not representing temporary agency work, we will address the latter in section 5.3.

Figure 38 'Temporary work' is not the same as 'temporary agency work'

Source: Eurostat LFS (lfsq_etpga, 2009), Ciett (2009).

Temporary work in general

In many countries temporary work has been an important component of employment growth in the last one or two decades. As outlined earlier, the increase in part-time work may be a response to the wish of women to combine work and family life (often because of caring responsibilities). Likewise, temporary contracts may facilitate job matching, by providing an initial work experience especially for youths (either during their educational period, for starters or for drop-outs) while also allowing employers to screen suitable candidates. For employers temporary jobs also offer the opportunity to adapt the size of their workforce to the economic conditions. In our literature study in Chapter 4 we present some empirical evidence of the 'stepping stone' function, where for the unemployed in some countries temporary work serves as a first step on their way to a permanent job. In Chapter 6 professor Schmid analyzes the characteristics of temporary work in a more theoretical way, in the current subsection we present the official statistics.

Table 31 shows the incidence of temporary work in European countries since 1983. Regarding temporary contracts the role of exceptional case in Europe is traditionally played by Spain, with recent developments being most dramatic in Poland. Since the early nineties around 30% of all Spanish workers had a temporary contract, nearly all of them fixed term contracts. A share that only dropped recently as a consequence of the economic crisis, which struck the Spanish labour market more than most other countries.

In Poland temporary work increased from less than 6% in 2000 to around 26% recently. In Portugal temporary contracts lost importance in the early nineties but rapidly became popular again in 1998, nowadays roughly 20-23% of all employment contracts in Portugal are temporary.

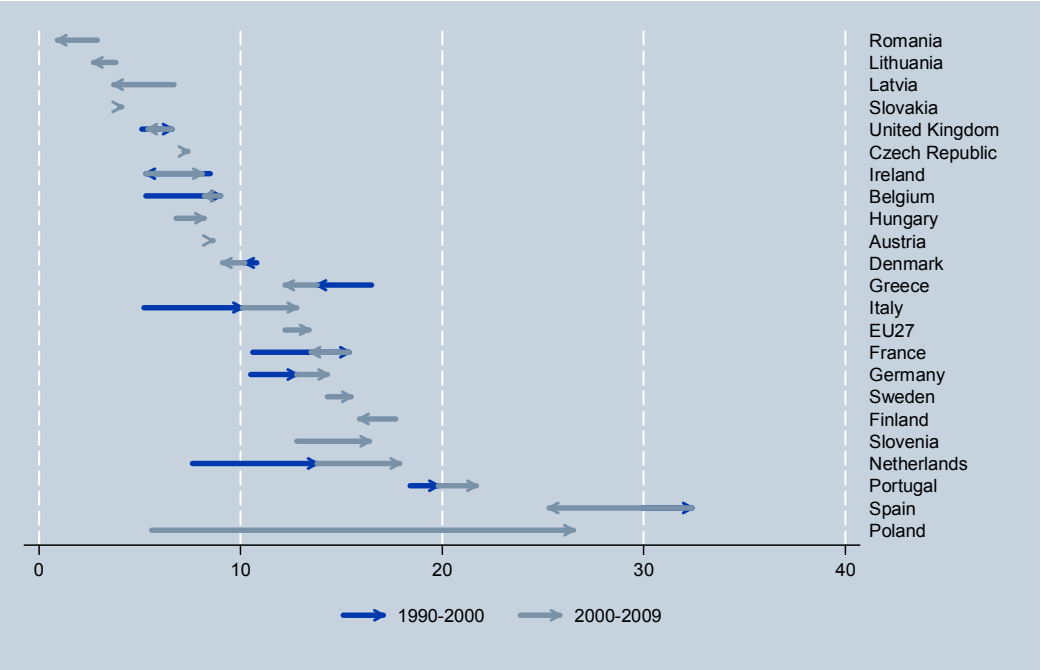
Table 31 Percentage of employees with a temporary contract

	1990	1995	2000	2005	2006	2007	2008	2009
Austria		6.0	8.6	8.8	8.7	8.8	8.7	8.6
Belgium	5.3	5.3	9.0	9.1	8.8	8.8	7.7	8.2
Germany	10.5	10.4	12.8	13.8	14.2	14.3	14.7	14.3
Denmark	10.8	12.1	10.2	9.9	9.6	9.0	8.5	9.1
Spain	29.9	35.0	32.4	33.3	34.4	31.9	29.4	25.3
Finland		16.5	17.7	18.1	18.0	17.3	16.9	15.9
France	10.6	12.2	15.4	14.3	14.4	14.4	14.3	13.5
Greece	16.5	10.2	13.8	12.1	10.9	11.2	11.6	12.2
Ireland	8.5	10.2	5.3	2.5	4.1	9.0	8.0	8.1
Italy	5.2	7.2	10.1	12.4	13.0	13.4	13.9	12.8
Luxembourg	3.4		3.4	5.3	6.1	6.9	7.7	7.4
Netherlands	7.6	10.8	13.8	15.1	16.1	17.9	18.0	17.9
Portugal	18.4	10.1	19.8	19.5	20.2	22.2	23.3	21.7
Sweden		13.0	14.3	16.0	17.3	17.7	16.4	15.5
United Kingdom	5.1	6.9	6.6	5.4	5.5	5.7	5.2	5.4
Cyprus			10.7	13.9	13.9	12.9	14.4	14.2
Czech Republic			7.2	8.0	8.1	7.9	7.4	7.4
Estonia			2.3	3.3	3.3			2.3
Hungary			6.8	7.2	6.7	7.5	7.8	8.2
Lithuania			3.8	5.1	4.7	3.7	2.7	2.7
Latvia			6.7	8.4	7.1	5.3	2.8	3.7
Malta			3.9	4.0	3.8	5.5	4.1	4.8
Poland			5.6	25.4	27.1	28.1	26.9	26.5
Slovenia			12.8	16.8	17.9	18.5	16.9	16.4
Slovakia			4.0	4.9	5.0	5.3	4.0	4.1
Bulgaria				6.3	6.2	5.7	5.1	5.2
Romania			2.9	2.6	1.9	1.6	1.3	0.9
Switzerland			11.6	12.8	13.5	12.9	13.2	
Norway		13.2	9.7	9.6	10.2	9.7	9.3	8.1
Turkey					14.2	13.7	12.9	11.3
EU27			**12.2**	**13.9**	**14.3**	**14.5**	**14.1**	**13.4**
EU25			12.5	14.4	14.9	15.1	14.7	14.0
EU15			13.6	14.3	14.7	14.8	14.5	13.6

Source: Eurostat LFS (lfsq_etpga, 2009)

Other interesting trends in temporary work can be seen in Figure 39, which shows graphically the developments in the two periods 1990-2000 and 2000-2009. Once again Poland springs into sight because it is the only country where temporary work became significantly more popular since 2000. In the beginning of the eighties France had the lowest share of temporary contract workers, but by the end of the eighties and during the nineties temporary work gained significance so much that France was listed third at the turn of the century, with 15% temporary contracts. But since then the share of temp work dropped back, just behind Germany and just above the EU-27 average.

Figure 39 Recent growth in temporary work impressive in Poland



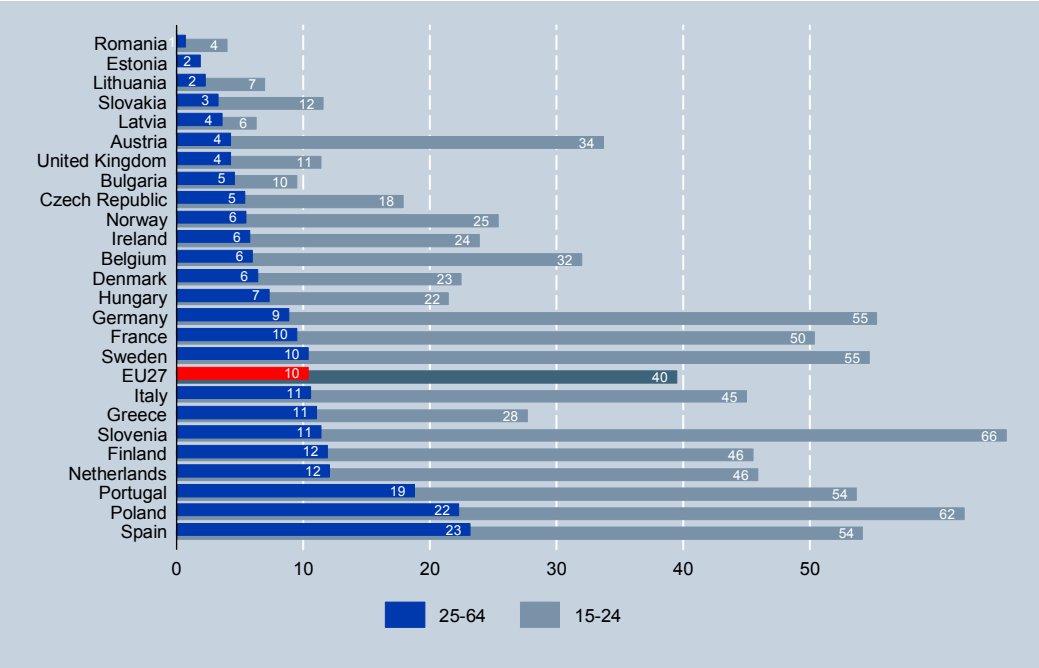
Source: Eurostat LFS (lfsq_etpga, 2009).

5.2.1 Characteristics of temporary work

Age, not sex

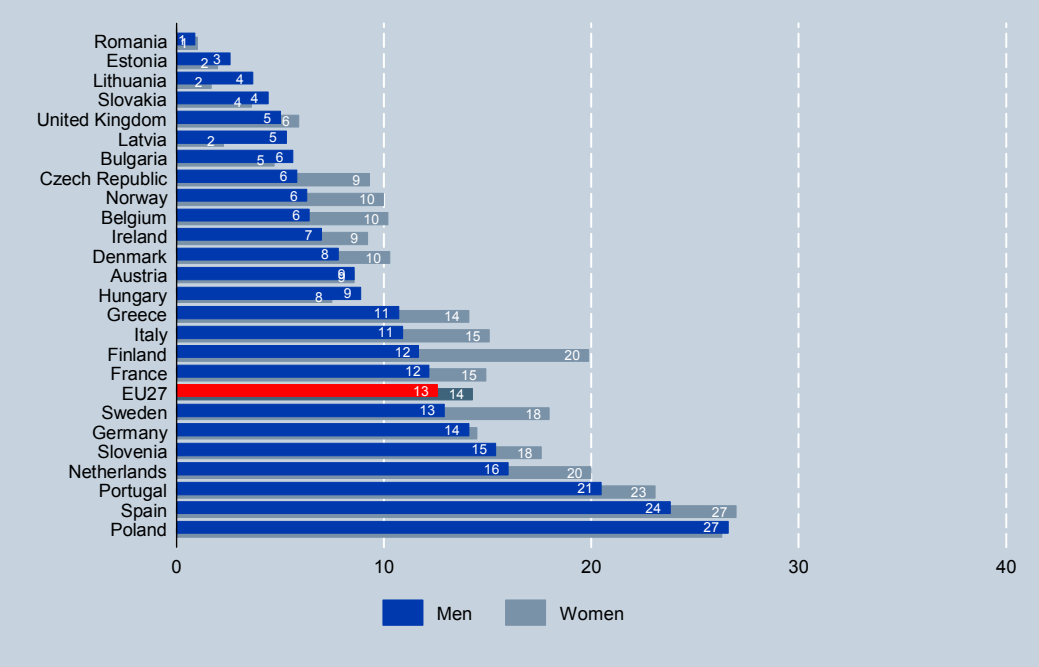
The following graphs show the share of temporary work, by age class through time (Figure 40) and by sex in 2009 (Figure 41). It is clear that temporary work does differ by age group (the bars in Figure 40 differ considerably) but not by sex (the two bars in Figure 41 do not differ much). As expected, temporary work is more common among youth. Part of this effect is caused by the fact that many young people are still in education, and therefore not available for a fulltime job yet.

Figure 40 Temporary work does differ between age classes…



Source: Eurostat LFS (lfsq_etpga, 2009).

Figure 41 …but less between the sexes, 2009



Source: Eurostat LFS (lfsq_etpga, 2009).

Figure 42 focuses on Poland, being the most interesting example currently because of the large growth in the use of temporary work. The figure shows the percentage of employees with a temporary contract. It confirms our conclusion that within each age group differences between men (red line) and women (blue line) are absent, while within the sexes differences between youth (straight line) and the remaining working population (dotted line) are considerable. This

however should not hide the fact that in both age groups temporary work has become more important.

Figure 42 Temporary work in Poland also: age matters, not sex

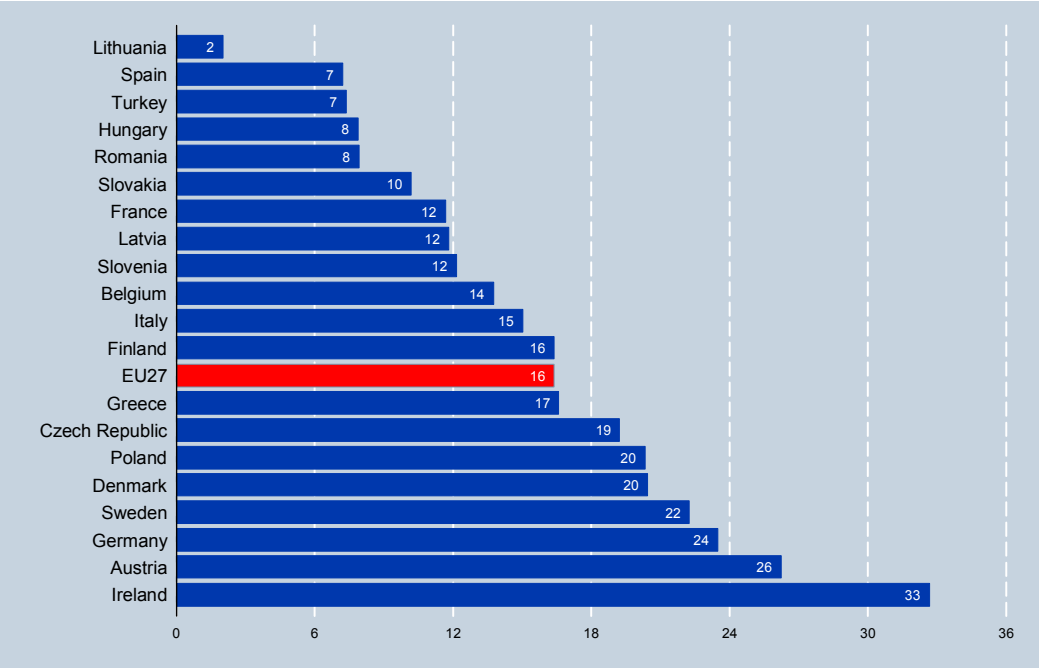
Source: Eurostat LFS (lfsq_etpga, 2009).

Duration of temporary work contracts

The type of temporary contracts differs between countries in the average duration. Figure 43 shows that in Ireland, Scandinavia and the German-speaking countries temporary workers have longer contracts than in other countries, especially the Baltic countries and Spain. The average duration of a temporary contract in the EU is 15 months. However, if we would look at the distribution we see that 60% of the contracts agree on a duration of less than 12 months, in fact 38% is even for less than six months.[55] We see no important differences in duration by sex or by age group.

[55] Although one person can have several sequential short-term contracts even within one year, the number we present is measured at some point in the second quarter of the year, so the chances of counting one person twice is neglectable. We only included countries where no more than 15% of the duration were unknown.

Figure 43 Average duration of temporary contracts, 2009



Source: Eurostat LFS (lfsq_etgadc, 2009).

Preferred choice or not?

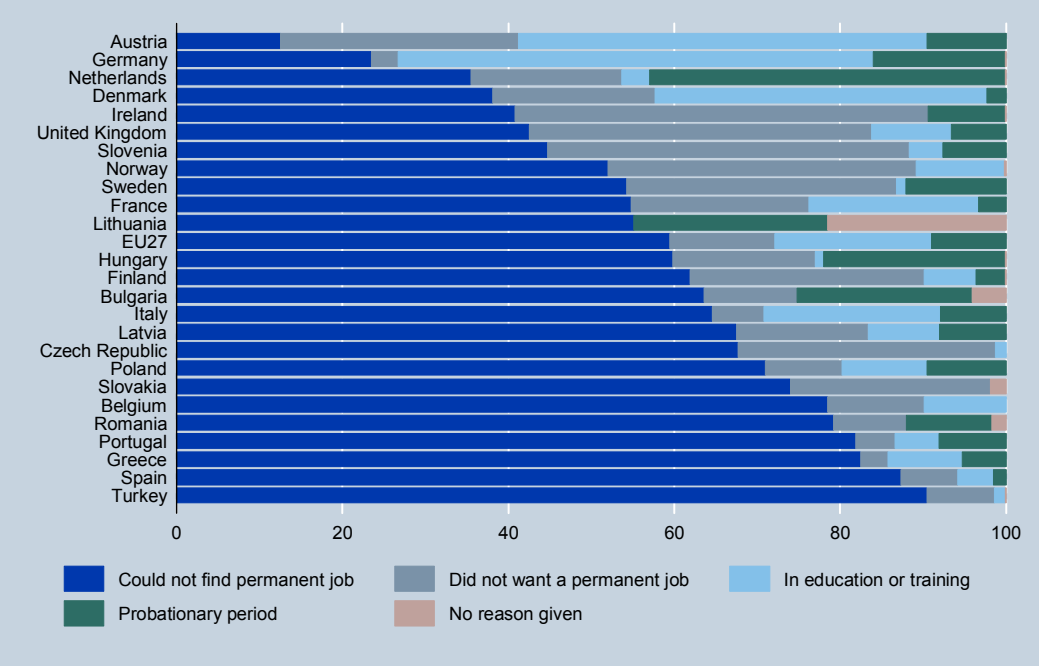
Just as with part-time work we also know for temporary workers what was their reason for not being in a 'traditional' job. Did they look for jobs with a regular contract without success, or did they make a deliberate choice? If an employee wants a permanent job but cannot find it, temporary work is considered as a second choice. If an employee does not want to have a permanent job at all, temporary work is considered as a preferred choice.

Figure 44 shows that the reasons for working in a temporary job differ substantially between countries. Roughly speaking: in the German-speaking countries, the Anglo-Saxon countries (Ireland, UK), Scandinavia and the Netherlands temporary work was a voluntary choice in 2008 for the majority of temporary workers. In Belgium and the Mediterranean countries at the other hand the majority consists of temp workers who opted for temping as a second choice. Little difference exists in reasons between men & women, except for Czech Republic (women more voluntary), Denmark (men more in education/training). Age also doesn't make a lot of difference: understandably, among the youth '*education*' is somewhat more important and '*couldn't find a permanent job*' somewhat less important.

A correlation exists between employment participation and the voluntariness of tempwork: the countries with higher participation have less people working involuntary in a fixed term contract. Or, to formulate it more positively: the higher participation comes hand in hand with more voluntary tempworkers (see Figure 45).[56] Apparently some part of the higher participation of some (Scandinavian & Anglo-Saxon) countries might be connected to their labour markets providing 'good quality' temporary jobs.

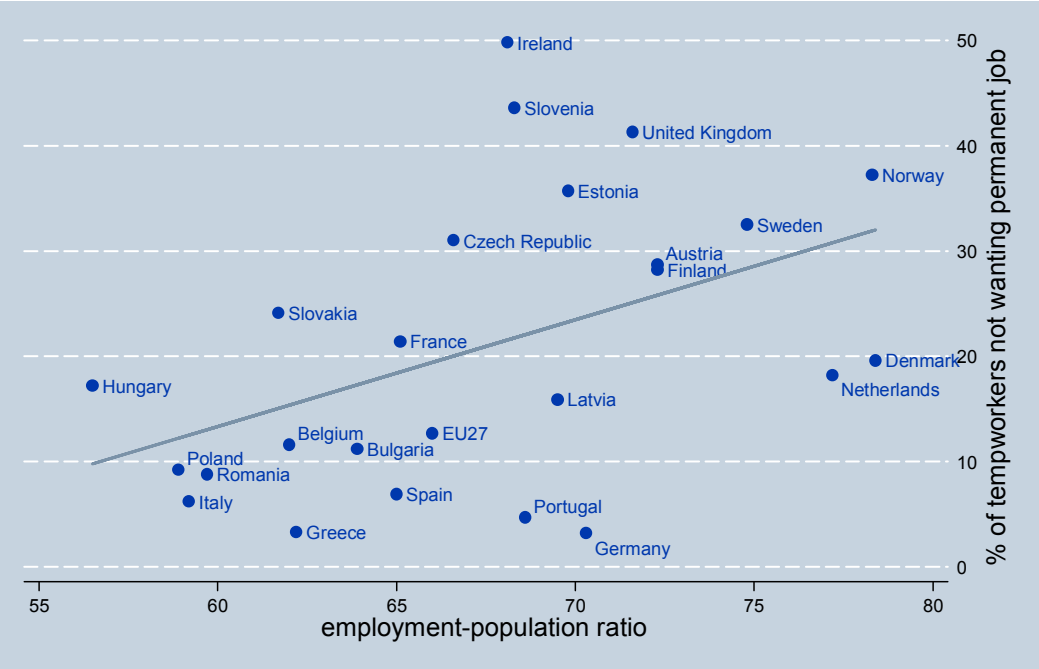
[56] The depicted relationship has been proven statistically significant, with t=2.19. Without outlier Ireland t=2.37.

Figure 44 Reasons for working in a temporary job, 2008



Source: Eurostat LFS (lfsq_etgar, 2009).

Figure 45 Voluntary tempwork is correlated with higher participation, 2008

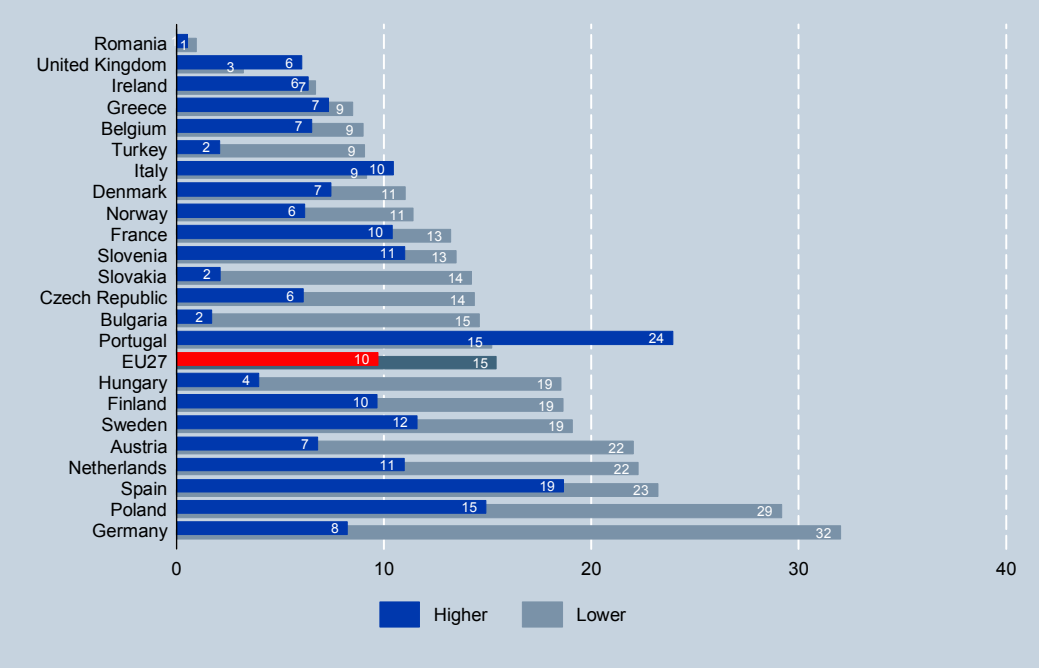


Source: Eurostat LFS (lfsq_etgar, 2008; lfsq_ergan,2009).

Skill differences

Temporary work is not only characterized by relatively young workers, it is also characterised by overrepresentation of low-skilled workers (see Figure 46). Two possible explanations can be thought of. Firstly, if people are still in education, their skill level is not measured correctly by 'highest successfully completed education' because they have not completed their educational track yet. Secondly, early school leavers ('drop-outs') do not get a permanent job easily because they lack certain minimum qualifications, therefore starting with temporary jobs is often their only option. In Spain and Portugal temporary work is not distinguished as 'typically low-skilled': high-skilled temporary work is also very common in these countries.

Figure 46 Temporary work, by educational level (% of total employment in category), 2009



Source: Eurostat LFS (lfsq_etgaed, 2009; lfsq_egaed,2009).

Sector and occupation

Table 32 shows the distribution of the temporary workforce over the different sectors of the economy. There is no clear overall-pattern, temporary workers can be found in very different sectors depending on their country. But most often do they work in manufacturing, wholesale/retail/trade, health care, education, construction and business services. Manufacturing is the most important sector for temporary workers in the Czech Republic, Germany, Italy and Hungary, while construction is dominant in Spain, Portugal and Sweden. In Belgium that is the education sector while health care is the most important temporary employment sector in Denmark, France, Poland & the UK. In Ireland, Netherlands and Austria most temporary workers are found in hotels & restaurants.

Table 32 Distribution of temporary workforce, economic sector 2008 (NACE, column-%)

	EU-27	Belgium	Czech Rep.	Denmark	Germany	Spain	France	Ireland	Italy	Hungary	NL	Austria	Poland	Portugal	UK
Agriculture	3	0	3	3	2	5	2	2	7	7	3	2	3	4	1
Manufacturing	12	15	27	11	19	12	13	6	17	24	12	14	11	15	8
Public utilities	0	1	1	0	1	0	0	0	0	0	0	0	1	0	0
Construction	8	3	6	9	5	20	8	8	7	12	4	11	6	16	3
Trade & repair	10	11	11	14	13	11	10	18	12	12	17	16	10	13	9
Hotels, rest. etc.	6	3	4	3	4	9	4	12	9	5	10	12	4	8	7
Transport & com.	4	5	4	3	4	4	4	3	4	4	7	3	4	5	4
Financial services	1	1	2	0	2	1	1	3	2	0	2	2	1	1	2
Business services	8	9	9	5	10	9	9	7	9	4	12	6	10	7	11
Public sector	6	6	11	5	7	6	14	3	5	17	4	6	4	6	6
Education	8	20	10	12	10	6	10	15	14	5	6	11	11	9	23
Health & care	9	13	8	26	14	8	14	13	7	4	12	9	23	7	15
Misc. services	5	6	5	8	7	4	7	7	6	4	4	7	9	4	9
Unknown	20	8	0	1	1	5	5	4	1	2	5	1	3	5	2
Total (million pers.)	25.6	0.3	0.3	0.2	4.9	4.9	3.3	0.1	2.4	0.3	1.3	0.3	3.2	0.9	1.3

Source: Eurostat LFS (lfsq_etgana, 2009)

Table 33 shows the distribution of the temporary workforce over different occupational categories. Same things can be said here: there is no clear overall pattern, temporary workers can be found in very different occupations.

Table 33 Distribution of temporary workforce, occupation 2008 (ISCO, column-%)

	EU-27	Belgium	Czech rep.	Denmark	Germany	Spain	France	Ireland	Italy	Hungary	NL	Austria	Poland	Portugal	UK
Legislator, manager	1	4	4	0	1	0	1	4	1	13	0	3	2	0	4
Professional	12	23	11	16	13	11	12	19	10	7	14	13	9	12	23
Technician & assoc. prof.	14	9	17	18	21	8	16	6	17	8	14	16	9	9	13
Clerk	11	10	9	7	12	8	12	13	14	0	16	10	10	11	15
Service, shop & sales	18	18	14	0	14	18	0	37	18	0	0	21	0	19	25
Skilled agricultural	2	0	1	3	2	1	3	0	2	4	2	2	1	2	0
Craft & related trades	15	8	11	15	16	21	12	8	13	16	7	24	22	21	2
Plant/machine operators	8	9	17	3	5	8	11	0	8	14	6	3	13	7	4
Elementary occupations	16	19	16	12	9	24	15	14	17	23	18	9	16	19	14
Armed forces	1	0	1	0	2	0	2	0	1	1	0	0	0	1	0
Unknown	1	0	0	0	4	0	0	0	0	0	2	0	0	0	0
Total (million pers.)	25.6	0.3	0.3	0.2	4.9	4.9	3.3	0.1	2.4	0.3	1.3	0.3	3.2	0.9	1.3

Source: Eurostat LFS (lfsq_etgais, 2009)

Temporary workers are predominantly found in elementary occupations, as service & sales worker, as craft & trades worker and (surprisingly) as 'technician or associate professional'. That last category is often used as proxy for 'knowledge economy occupations'. It contains relatively many temporary workers in the Central European countries. In Belgium temporary work is most prominent among professional occupations, which are also popular among British and Irish tempworkers. Craft & related trades occupations are often temporary jobs in Austria, Poland and Portugal; Czech Republic is the country which employs relatively most temporary workers for plant & machine operation. In Ireland and the UK the temporary workforce is also found in service, shop & sales jobs. The Spanish and Hungarian tempworkers are often in elementary occupations.

Immigration

Many publications have already shown that immigrants (foreign-born) are overrepresented in temporary jobs. This is still true, even though such statistics concern mainly structural migrants: people who intend to live in the host country for longer periods, and who are therefore officially registered as inhabitants of the host country. But in Europe, traditional migration patterns have changed drastically during the last years, particularly since the accession of ten new EU Member States in 2004 and two more in 2007. Because free movement of people within the EU suddenly meant free movement from Eastern Europe to Western Europe, new patterns of migration emerged.

Traditionally migrants came to Western Europe from other continents (Morocco, Turkey, former colonies) and stay in their host country on a permanent base. As it happens, this type of migration is getting more uncommon lately. In fact outflows (return migration) of Turkish- and Moroccan-born people are often bigger than inflows.

Modern migration patterns are more fluid: not only are they intra-EU, they are also characterized by a very temporary character, and much more driven by work opportunities. As distances between origin country and home country are smaller, return migration is much more frequent. Return migration is less costly, and the possibility of re-entering the host country is guaranteed. If work opportunities disappear, migrants prefer to move back to their home country or move on to another EU-country. Many Polish workers left the UK at the end of 2008 when the effects of the financial crisis struck that country relatively hard. Some returned to Poland, others moved on to prove their luck in some other EU country.

This new 'circular migration' is of course increasing the overrepresentation of migrants in temporary jobs, but this effect is hardly measured in official statistics. Because the modern migrants are free to travel within the EU, most of them do not officially register themselves in the host countries. As many even do not require a work permit anymore, keeping track of these 'temporary' labour migration flows is much more difficult than it is to keep track of the traditional 'structural' migration flows. In the last edition of IDEAL we spend a special topic on the role of migration, stating that it is becoming more and more an essential and necessary element of our (flexible) labour markets.[57] Recent Dutch research was designed specifically to include temporary labour migration, as well as structural migration (see Heyma et al, 2008). The main conclusion was that the increase of (temporary labour) migration from Eastern European countries had a modest impact on the Dutch economy. Displacement of national workers hardly

[57] See also Berkhout (2008).

takes place on average, a lowering effect of wages is found but barely noticeable, and for the public sector the net contribution of this generation of migrants is slightly positive.

5.3 Temporary agency work

Temporary agency work differs from the 'temporary work' described in the previous section on several characteristics. Most obvious is that the employer does not hire the employee directly on a fixed term contract, but through a private employment agency (PrEA). Typically the employee is hired directly by the employment agency, mostly on a temporary basis but sometimes even on a permanent contract. During the contract period the employee can be assigned to different user companies. Another important difference is what happens after that. If the contract expires, a renewed contract with the employment agency is one of the possibilities, but also a contract with one of the using companies.

The labour relations are more complex in the case of temporary agency work: there is a triangular relationship between employee, agency and using company. Temporary work agencies often act as a kind of 'impresario' for the employee, because matching labour supply with demand is a common goal of employers, employees and agencies. As a consequence, temporary workers served by an agency have a lower risk of becoming unemployed than workers with a fixed-term contract.

Temporary work agencies play a special role in promoting smooth labour transitions and increased participation. They are part of most flexicurity strategies, because they provide some favourable characteristics that are often not found in other flexible forms of labour. For example, temporary agency work is the most preferred form because of their function as 'transition managers', assisting people to move from job to job, or even from one sector of the economy to another. In this way, temporary work agencies actively improve matching, irrespective of the business cycle.

Because of the negative effects of staying unemployed for longer periods of time, matching labour supply with demand is even more important in a recession than in prosperous economic times. In many countries, rising unemployment in some sectors goes together with vacancies in other sectors, especially in light of the current recession. This so-called 'sectoral gap' might be closed more easily by public-private partnerships with temporary work agencies, as many of them operate across many different sectors. In so far as a recession acts as a driving force for sectoral changes, this cross-sectoral matchmaking benefits the economy, also in the long term.

For the (structural) unemployed, what matters is not the quantitative but the qualitative match. For many of them, temporary work agencies facilitate easier transitions from unemployment to work, thus bringing more people to the labour market. In some cases vocational training is provided, such as through the use of bipartite funds in Belgium, the Netherlands, France, Italy, Spain, Luxembourg and Austria. The use of RPL ('Recognition of Prior Learning') by the Dutch bipartite fund has recently been recognized as very helpful, for labour markets in general, but also for employees themselves.[58]

[58] See http://www.kenniscentrumevc.nl/evc_nl/11cf2c21c134747892d544c26df1c55e.php.

Temporary agency work might act as a 'stepping stone' to more regular employment. Recently, SEO Economic Research has shown that, in the Netherlands, people with a temporary agency work job have almost the same perspectives on a more permanent job as people who directly obtain a regular job[59] through the public employment service. The main difference is that the persons with a temporary agency work job change jobs more frequently and spend less time in unemployment. As such, they impose less of a burden on the welfare system. The effect of agency work here is that unemployment spells are significantly shorter. The so-called 'stepping stone' function of temporary work & temporary agency work is described in more detail in our literature study in Chapter 4. Temporary work (which also includes agency work) acts as a stepping stone for the unemployed in countries like the UK, Italy, Germany, Belgium, and the Netherlands.

Measuring temporary agency work

Unfortunately temporary agency work is seldom distinguished in official statistics yet, so we cannot use Eurostat or OECD databases to assess the impact of temporary agency work on the economy. We have collected as much internationally comparable statistics through CIETT (the International Confederation of Temporary Work Businesses) and through national employment agency federations. Reliability and comparability was a weak point, but has improved substantially since last year.[60] We believe that they now present a fairly reliable overview of temporary agency work, and are the best source of information on this topic. Table 34 presents the temporary agency work 'penetration rate', defined as the average daily number of temporary agency workers FTE as a percentage of total employment. This gives an overview of the relative importance of temporary agency work in the national labour markets. It shows that in the UK temporary agency work is most common, followed by the Benelux countries & France. Already in 1998 temporary agency work was quite common in these countries; in Italy though it is a relatively new phenomenon, covering 0.9% of employment in 2007.

[59] Arjan Heyma, Chris van Klaveren m.m.v. Marloes de Graaf-Zijl (2008), Uitzendbaan versus direct dienstverband: vergelijking loopbanen CWI-cliënten, SEO-rapport 2008-12, Amsterdam.

[60] In the preparation of Eurociett (2007) Eurociett and SEO Economic Research jointly improved the comparability and reliability of the reported statistics. They also recalculated time series for the UK; this was necessary because of definition changes. The tables in this section therefore replace all agency work tables in Berkhout et al (2007).

Table 34 Temporary agency work penetration rate, 1996-2008

	1996	1999	2000	2002	2003	2004	2005	2006	2007	2008
Austria	0.4%	0.7%	0.8%	0.8%	1.0%	1.2%	1.2%	1.5%	1.5%	1.7%
Belgium	1.2%	1.6%	1.7%	1.6%	1.6%	1.8%	1.9%	2.1%	2.2%	2.1%
Denmark	0.2%	0.3%	0.3%	0.4%	0.4%	0.5%	0.6%	0.8%	0.7%	
Finland	0.4%	0.3%	0.4%	0.5%	0.5%	0.6%	0.7%	0.7%	1.1%	1.2%
France	1.3%	2.3%	2.6%	2.4%	2.3%	2.4%	2.4%	2.4%	2.5%	2.3%
Germany	0.4%	0.7%	0.8%	0.7%	0.8%	0.9%	1.0%	1.3%	1.6%	2.0%
Hungary				0.8%	1.0%	1.4%	1.4%	1.4%	1.4%	
Ireland	0.2%	0.6%	1.5%	1.4%	1.4%	1.4%	1.3%	1.5%	1.7%	
Italy		0.1%	0.3%	0.4%	0.6%	0.7%	0.7%	0.8%	0.9%	
Luxembourg	1.2%	1.7%	2.2%	2.1%	2.1%	2.1%	2.2%	2.6%	2.5%	1.9%
Netherlands	2.1%	2.5%	2.3%	2.1%	1.9%	1.9%	2.2%	2.5%	2.8%	2.8%
Norway	0.3%	0.5%	0.5%	0.5%	0.4%	0.5%	0.7%	1.0%	1.0%	1.0%
Poland					0.1%	0.2%	0.2%	0.2%	0.4%	0.6%
Portugal	0.6%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	
Spain	0.5%	0.9%	0.9%	0.7%	0.7%	0.7%	0.7%	0.7%	0.8%	0.7%
Sweden	0.3%	0.6%	1.0%	0.9%	0.7%	0.7%	0.7%	0.8%	1.3%	1.3%
Switzerland	0.6%	0.9%	1.0%	0.9%	0.9%	1.0%	1.2%	1.5%	1.7%	1.6%
UK	2.6%	2.8%	3.8%	3.8%	4.0%	4.2%	4.3%	4.5%	4.8%	4.2%
Argentina		0.5%				0.8%	0.8%	0.9%	0.9%	0.9%
Brazil								0.9%	0.9%	
Japan	0.5%	0.6%	0.8%	1.1%	1.2%	1.4%	1.7%	1.9%	2.1%	2.2%
Mexico								0.8%	0.8%	
South Africa							2.4%	2.3%	2.3%	
South Korea						0.2%	0.3%	0.3%	0.3%	0.3%
USA	1.7%	1.9%	2.0%	1.6%	1.7%	1.9%	2.1%	2.0%	2.0%	1.8%

Source: Own calculations SEO Economic Research, based on Ciett statistics & Eurostat.

5.3.1 Statistics on temporary agency work

Recently a report on the characteristics of temporary agency workers was published by Ciett.[61] In this section we present some of the most interesting results. Table 35 shows that in most European countries, temporary agency workers are more often male than female. Exceptions are Poland, Greece, UK and Finland, plus important non-European countries like USA and Japan.

[61] CIETT (2009), '*The agency work industry around the world*', Brussels. See www.ciett.org .

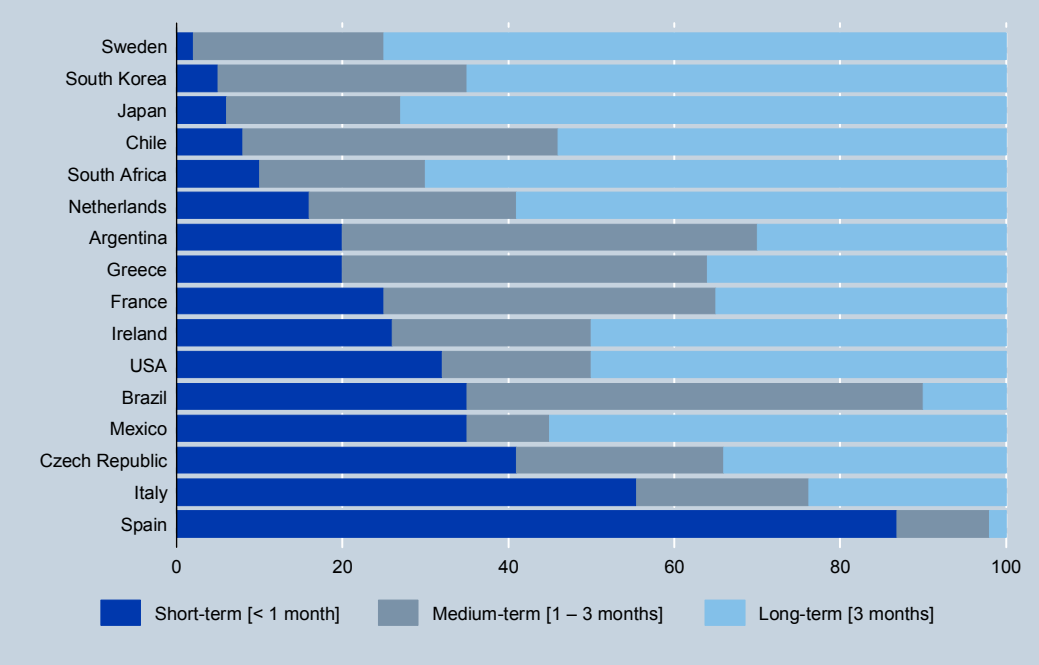
Table 35 Temporary agency workers: sex composition, 2008

	Male		Male
Austria	80%	**Norway**	51%
Switzerland	74%	**Sweden**	50%
Germany	73%	**Chile**	49%
France	71%	**Brazil**	47%
Japan	61%	**Poland**	46%
South Africa	60%	**Greece**	46%
Belgium	58%	**Portugal**	45%
Italy	58%*	**Czech Republic**	44%
Mexico	54%	**USA**	44%
Spain	56%	**South Korea**	42%*
Hungary	54%	**UK**	42%
Netherlands	53%	**Finland**	34%

Source: Ciett (2010), figures for Japan, Italy and South Korea regarding 2007.

In most countries, the length of assignment is over 3 months for the majority of the temporary workers. But in Figure 47 we see that Spain (and, to a lesser extent, Italy) is a special case: assignments of temporary agency workers are very short, in fact rarely more than 3 months. But of course someone can have several assignments on a row, probably even on the same contract.

Figure 47 Temporary agency workers: average length of assignment

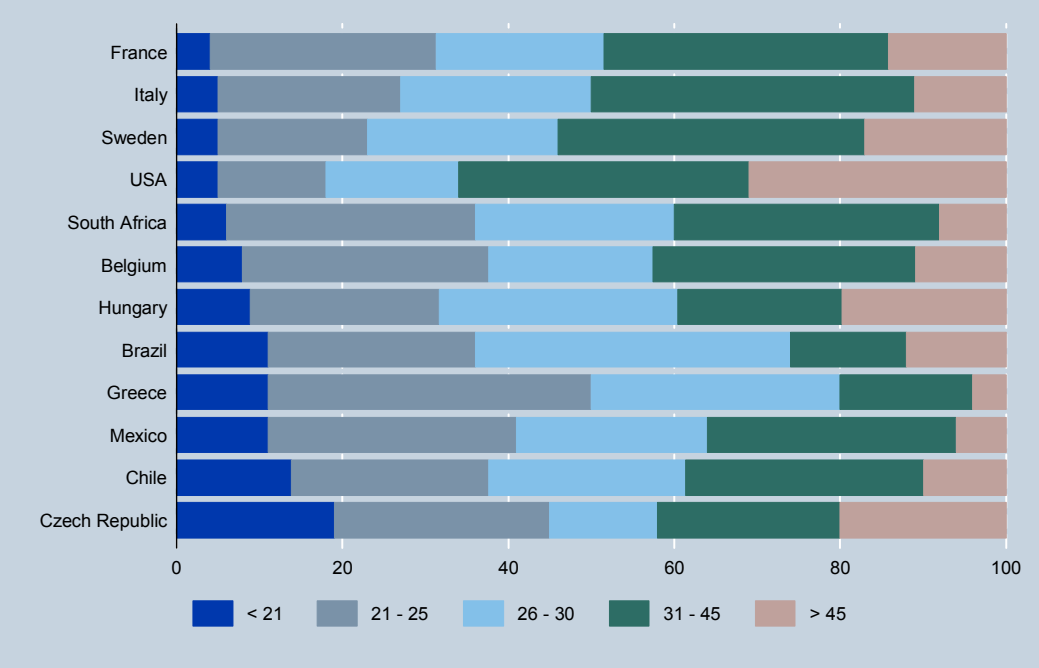


Source: Ciett (2009).

On average, temporary agency workers are relatively young (see Figure 48). In most countries the majority has not reached the age of 30. The most important exception here is the US, where the age distribution of agency workers is more symmetric. One third is younger than 30, one third is between 30-45 years of age, and one third is older than 45. The Netherlands is not included in

the figure, because of conformability issues. Dutch temporary workers are on average quite young, half of them is younger than 25, while 12% is 45 years or older. This makes the age distribution in the Netherlands more or less comparable to the Belgian.

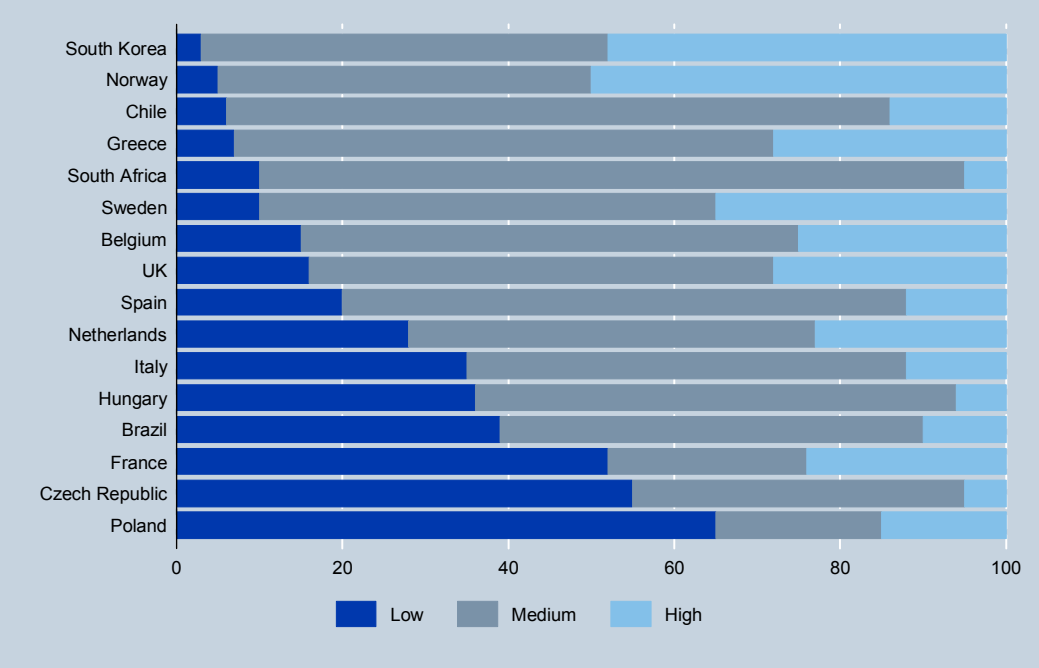
Figure 48 Temporary agency workers: age distribution



Source: Ciett (2009).

The age distribution also correlates with the distribution of temporary agency workers by level of education.

Figure 49 Temporary agency workers: educational level

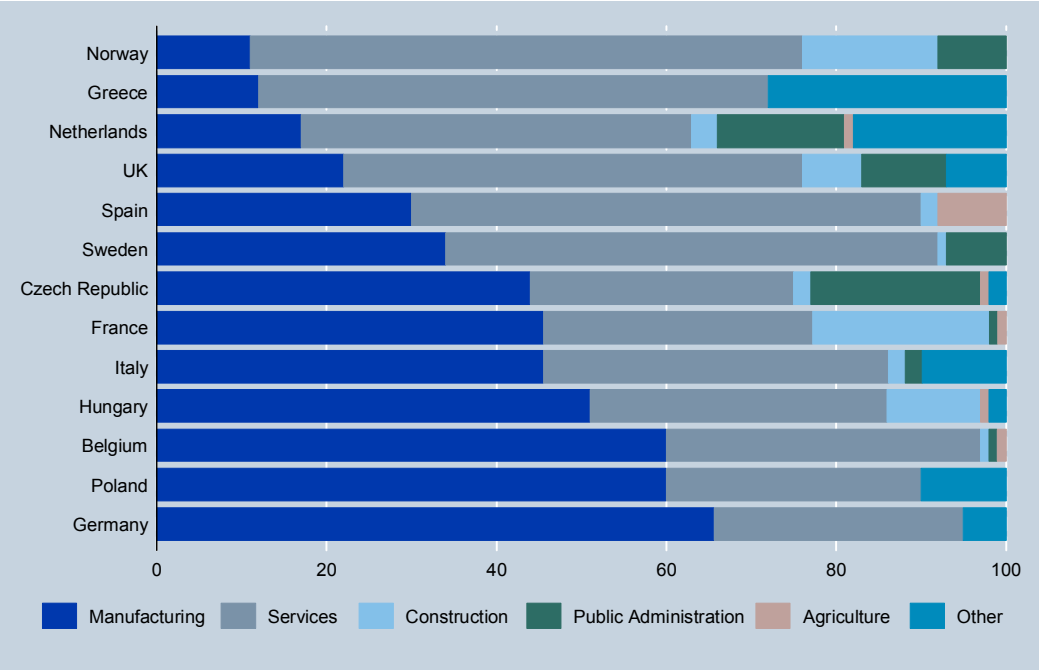


Source: Ciett (2009).

In some countries (especially the Netherlands) many temporary agency workers are students. Which means that in Figure 49 they show up as 'medium', because they have only completed secondary education. However, for most of them a tertiary education diploma is only a matter of time. In Eastern Europe and France the situation appears different, here temporary agency workers are predominantly lower educated, which means that they have not completed secondary education. In Norway and South-Korea temporary agency work employs many higher educated employees.

Although the trend is towards the service sectors of the economy, Figure 50 shows that manufacturing remains an important sector for temporary agency workers in the traditionally industrial economies like Germany, Belgium, Poland, Hungary, Italy, France and the Czech Republic. In the Scandinavian countries, UK and the Netherlands temporary agency work is common in the public sector and the health sector, whilst other countries have legal bans on the public sector (Belgium, Spain). France has lifted the public sector ban in 2009. Germany and Spain have bans on the use of temporary agency workers in the construction sector.

Figure 50 Temporary agency workers: sectoral distribution



Source: Ciett (2009).

5.4 Self-employment

Contrary to the other forms of modern labour relations discussed before, self-employment did not gain a lot of importance during the last decade, on average. According to official Eurostat statistics 10% of employment in the EU27 is in the form of self-employment, and that share has always been between 9.4% and 10.1% since the year 2000. Self-employment is twice as common in Turkey and in Greece, while in Romania and Italy the share is around 16-17%. Differences between the other countries are not immense, between 5-10% of their employment is generated by registered self-employment (see Table 36). Self-employment is slightly more popular among

men than among women. The EU27 share of male self-employed is around 12%, whereas only 7% of female employment is in the form of self-employment. Apart from these official statistics other forms of self-employment might also exist. Professor Schmid elaborates in this in Chapter 6, with special attention for the role of self-employment in combination with part-time jobs.

Table 36 Self-employment, as % of total number of employed persons

Country	1998	2000	2002	2004	2005	2006	2007	2008	2009
Austria	5.7	5.4	5.1	6.8	7.0	6.8	6.7	6.4	6.3
Belgium	13.4	9.2	9.3	8.2	8.3	8.4	8.3	8.5	8.2
Germany	4.7	4.8	4.8	5.5	6.0	5.9	5.7	5.7	5.7
Denmark	4.0	3.8	3.7	4.2	4.1	4.2	4.2	4.2	4.6
Spain	14.5	12.2	11.9	11.1	11.2	11.0	10.9	10.6	10.1
Finland	10.0	8.3	8.0	7.6	7.7	8.0	7.6	7.9	8.5
France	6.1	5.7	5.4	5.3	5.3	6.0	5.9	5.2	5.8
Greece	24.1	23.5	23.0	21.6	21.5	21.1	20.8	20.3	20.7
Ireland	11.7	10.9	10.4	10.6	10.1	9.6	9.7	10.0	10.2
Italy	11.7	11.1	10.9	17.6	17.2	16.9	16.7	16.4	16.1
Netherlands	6.4	6.9	7.1	7.3	7.5	7.8	8.1	8.4	8.6
Portugal	16.6	14.1	15.3	14.2	14.1	13.9	13.4	13.1	13.4
Sweden	6.2	5.9	5.8	5.9		5.9	5.9	5.7	5.9
United Kingdom	8.7	8.3	8.6	9.3	9.4	9.4	9.7	9.8	10.0
Czech Republic	8.8	10.2	11.1	12.1	11.5	11.3	11.6	11.8	12.1
Estonia	5.2	4.9	4.6	5.8	5.0	5.5	5.8	4.1	3.9
Hungary	12.4	9.4	7.8	8.0	7.4	6.6	6.6	6.7	6.6
Lithuania	11.7	14.0	14.6	13.8	12.4	11.6	10.0	8.0	8.2
Latvia	7.8	6.1	5.9	6.1	5.9	7.3	5.9	5.3	6.5
Poland	17.7	17.9	18.1	16.7	15.9	15.5	14.7	14.7	14.4
Slovenia	8.1	6.7	7.3	6.1	5.9	6.8	6.8	6.3	7.0
Slovakia	4.2	5.2	6.0	8.5	9.4	9.5	9.6	10.2	12.2
Bulgaria		11.5	9.3	9.1	8.3	7.8	7.2	7.6	7.9
Romania	16.7	19.1	18.6	16.0	17.2	16.8	17.2	17.2	17.1
Switzerland	7.0	7.1	7.5	7.3	7.1	6.9	7.2	7.1	
Norway	5.6	5.2	5.4	5.4	5.4	5.9	5.5	5.2	5.3
Turkey						22.1	21.1	20.1	19.7
EU27		**9.6**	**9.4**	**10.1**	**10.1**	**10.1**	**10.0**	**9.8**	**9.9**

Source: Eurostat LFS (lfsq_esgaed, 2010).

5.5 Summary

Modern labour relations have become more prominent in the last two decades, although the fulltime open-ended contract is still dominant. However, differences between countries (and sometimes between sex and age groups) are immense. For women in the Netherlands part-time work is now the dominant type of labour, in other Northwest-European countries part-time work is also common among women, while in the rest of Europe it is still a marginal phenomenon. So far part-time work is typically a phenomenon of women making a deliberate choice of balancing work and family in a modern way.

Traditional fixed-term contracts between employer and employee have also gained importance in some countries (Spain, Poland) and among some groups (young people) and sectors (manufacturing, in some countries health care and construction). In Northwest-Europe flexibility is more often characterized by three-actor labour relations, involving temporary work agencies.

Compared to fixed-term contracts, temporary agency workers spend less time in unemployment, and in the countries with a mature 'agency work market' it often acts as a 'stepping stone' for the unemployed. Self-employment did not become more popular in the last decade.

6 Non-standard employment and labour force participation

A comparative view of the recent development in Europe

Günther Schmid,
Free University of Berlin [62,63]

6.1 Introduction

Despite the current crisis, which might again lead to mass unemployment in the short-term, the long-term perspective of most EU member states is still one of labour shortage for two reasons: one quantitative related to the ageing society, one qualitative related to the rapid change of technology and global competition. Whereas migration might fill this gap to some extent, raising labour force participation of the native population is generally seen as the more sustainable solution. Furthermore, changing work preferences, especially among women traditionally tied to unpaid work in the private households, hint to unexploited potentials of endogenous factors driving labour force participation. Preferences for labour market participation might still be blocked by institutional barriers of various sorts: employment protection, tax incentives, lack of child care or elderly care infrastructure, and wage discrimination.

Other important factors slowing down the potential increase in labour force participation are all sorts of regulations that enforce outdated standards of the employment relationship. Such standards – traditionally defined as open-ended contracts in dependent full-time work, possibly further restricted to one employer and five days a week from nine o'clock in the morning to six o'clock in the evening – limit both the use of flexible labour for the employers as well as the opportunity of variable employment over the life course for the employees.

The last decades, however, have seen an erosion of this – traditionally defined – "standard employment relationship" through part-time work, fixed-term contracts, temporary agency work and self-employment. Whereas many welcomed this development as a blessing for flexible labour markets, others were highly critical and hinted very early to disastrous intended or unintended side-effects such as low or volatile income, dead-end jobs instead of stepping stones, high job insecurity, and poverty in old-age. At the beginning of this century, the European Commission stepped in as a kind of broker by recommending to direct the European Employment Strategy towards a proper balance of flexibility and security (Kok et el. 2004), dubbed already early by ingenious Dutch researchers as 'flexicurity' (Wilthagen 1998).

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[63] I thank Paula Protsch for her invaluable gathering and handling of the statistics, Ernest Berkhout and Jules Theeuwes at SEO Amsterdam for their kind hospitality, complementary help and challenging suggestions, which I could not all fulfil.

Varying a well-known saying by Martin Luther with respect to his wife: 'as we have got this term, we have to like it.' All the more, since a further increase of labour force participation seems inevitably be connected with a greater variety of employment relationships. The aim of the following essay is to test this assumption in a preliminary way through systematic descriptive work and conceptual reflections:

- first by comparing the development of non-standard employment in EU member states from 1998 to 2008;
- second by relating this development to the dynamics of economic welfare and labour force participation;
- third by exploring some determinants to explain this development;
- fourth by discussing the policy consequences aimed at ensuring a *complementary* relationship between flexibility and security rather than trading-off one against the other;
- fifth by summarising the main results and concluding.

6.2 The Change of the Employment Relationship in the European Union

The following view on the dynamics of the employment relationship is based on the European Labour Force Survey using the following definitions for labour force participation and non-standard employment:

- (1) Activity rate / or labour force participation rate = (Employed + Unemployed) as per cent of working age population (age 15 to 64)[64]
- (2) Part-time employment rate = employed in part-time work and in open-ended contracts or in own account work[65] as per cent of working age population; or as a share of total employment
- (3) Fixed-term employment rate = employed in fixed-term contracts (including temporary agency work with fixed-term contracts and part-timers in fixed-term contracts) as per cent of working age population; or as a share of total employment
- (4) Self-employment rate = own account workers (self-employed without dependent employees) in full-time as per cent of working age population; or as share of total employment
- (5) (Aggregate) Non-standard employment rate = sum of (2, 3 and 4) as per cent of working age population; or as share of total employment

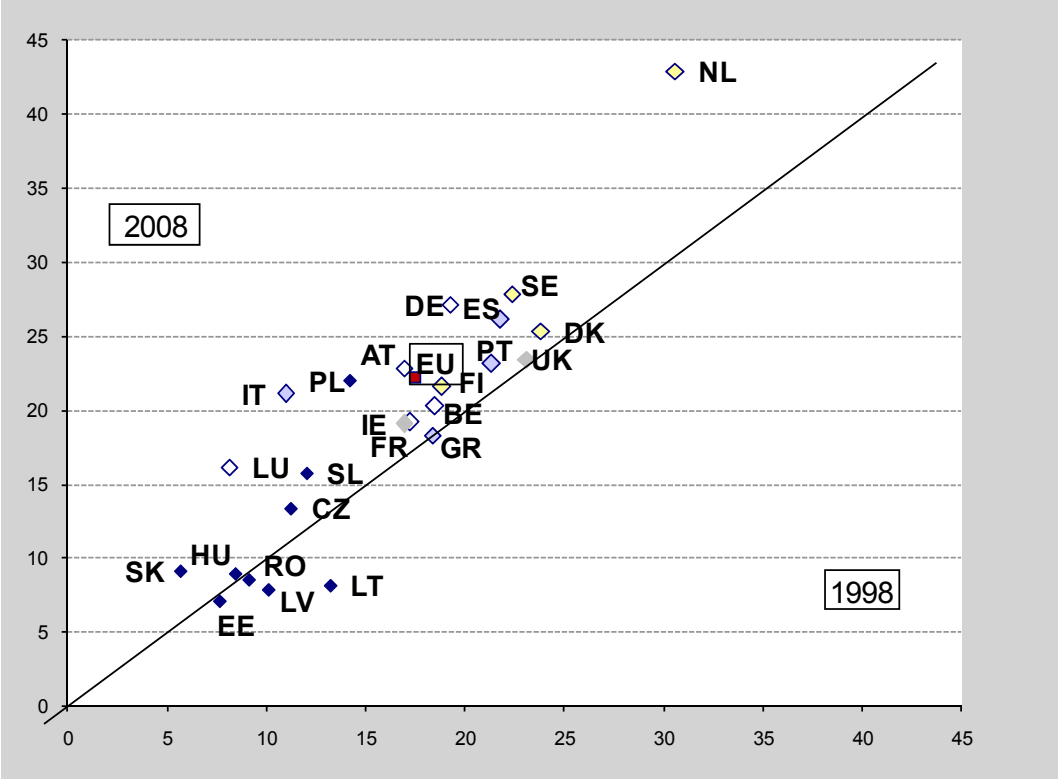
[64] Notice that we measure "labour force participation" by including the unemployed who belong – in functional terms – to the active labour force (i.e., being available to the labour market and willing to work). The downside of this measure is spoiling international comparability since the measurement of unemployment between countries varies more than the measurement of employment despite ILO or OECD standards especially at the margin of the ages and with respect to health related employability. Related to the latter, the standard for employability applied in Germany for instance is (since 2003) stricter than in Denmark or in the Netherlands. Konle-Seidl/ Eichhorst (2008) find that Dutch unemployment rates would almost double by applying the German standards.

[65] Notice that we use self-reported 'part-time' which includes both the possibility that some people are in an open-ended full-time contract but actually work part-time, or the possibility that people are in an open-ended part-time contract but actually work more than 35 hours.

The statistical analysis uses a special data set of EUROSTAT which allows, by using a filter, to put the three components of non-standard employment together to an aggregate figure of non-standard employment. The figures usually published cannot be added since categories overlap: part-timers may be on a fixed-term contract, and temporary workers may work full-time. On the other hand, this data set leaves open the option to separate part-time from full-time fixed-term contracts or to distinguish between part-time and full-time own self-employment if the analytical perspective requires such a differentiation.

Figure 51 shows the development of the (aggregate) non-standard employment rate for 24 EU member states[66]. The horizontal axis presents the share of non-standard employment as a percentage of total population aged 15-64 in 1998. The vertical axis presents the same indicator, but for 2008. Most countries are in the upper half of the graph, meaning that their 'aggregate non-standard employment rate' has increased during the last ten years. The other pattern we can see is the fact that countries belonging to the so-called social-democratic regime, here including Netherlands a 'hybrid', rank highest in terms of the combined indicator for non-standard employment.[67]

Figure 51 Aggregate non-standard employment rates in Europe, 1998 and 2008



Source: Eurostat LFS; own calculations; the "aggregate" non-standard employment rate includes part-time, fixed-term and own account work controlling for overlaps; the EU-average excludes Bulgaria, Malta and Cyprus; see footnote 5.

[66] Excluded are – for reasons of data limitations or exceptionality – Bulgaria, Cyprus and Malta.

[67] I refer to the classic 'regime'-typology by Esping-Andersen (1990); Netherlands as a 'hybrid' contains 'conservative' elements as well. See Appendix 1 for country abbreviations.

However, with around one quarter of the working-age population non-standard employment is also fairly well developed in the 'liberal' system of UK, and even in family centred or so-called conservative employment systems like Austria, Belgium, France, Germany, Italy, Spain and Portugal.[68] On the other hand, it is remarkable that most of the new member states cluster together in the left corner of the figure, which means displaying low non-standard employment rates of around 10 percent, and some countries showing even declining rates.
This leads to the second pattern that immediately can be observed from Figure 51. Most countries are situated above the diagonal line, which means above the implicit time axis. If all countries would lie on this diagonal, nothing would have changed from 1998 to 2008. This is true for some countries, e.g. for UK, Greece, and Hungary. Some countries, especially Lithuania and Latvia, experienced even a decline in the aggregate non-standard employment rate. In most other countries, however, especially in Italy, Poland, Spain, Germany and Netherlands, the non-standard employment rate increased by about five to ten percentage points.

By decomposing non-standard employment into its three components of part-time work, fixed-term employment and self-employment, our expectation is confirmed: part-time work is the most prominent element in non-standard employment of most countries. As already hinted at the beginning by pondering about the definition of 'standard' employment from a life-course perspective, there are good reasons to argue that at least open-ended part-time work in the range of 20 to 35 hours deserves to be counted as standard, and not 'atypical' anymore. Part-time work is common especially in well developed knowledge and service economies. Part-time employment rates – including the non-trivial number of self-employed people working in part-time – however display great variation between the EU member states, ranging from one percent in Romania to 27 percent for 'champion' Netherlands. The fixed-term employment rates (including part-timers with fixed-term contracts) vary 'only' between (roughly) one percent in Romania again and 16 percent in Spain; whereas the self-employment rate (excluding part-time) displays a minimum of two percent (Luxembourg) and a maximum of 12 percent (Greece).[69]

Behind any variation of figures there are possibly hidden patterns. Are these three components of 'flexible' employment complementary or substitutive? A first answer to this question can be found by simply correlating the various forms of non-standard employment across the 24 country observations in 2008. In order to avoid auto-correlations, we further subdivide self-employment into part-time and full-time, and do the same with fixed-term contracts, which leaves – as fifth element – part-time work in form of open-ended contracts.

Table 37 Correlates of non-standard employment in 2008

	Part-time[1)]	Fixed-term employment		Self-employment[2)]	
	(Open-ended)	*(Full-time)*	*(Part-time)*	*(Full-time)*	*(Part-time)*
Part-time (Open-ended)	1				
Fixed-term (Full-time)	-0.07	1			
Fixed-term (Part-time)	**0.68**	**0.34**	1		
Self-employed (Full-time)	**-0.46**	0.14	-0.19	1	
Self-employed (Part-time)	**0.49**	0.28	**0.62**	0.15	1

Source: Eurostat LFS, own calculations; N = 24 Member States of the EU (without Bulgaria, Malta, Cyprus); Strong ('significant') coefficients (>= 0.30) are in bold. 1) Part-time according to self-assessment; without self-employed. 2) Own account workers (without dependent employees)

[68] May be catholic Poland can be counted to this regime-type as well.
[69] See the corresponding figures in Appendix 2.

The strong positive correlation between open-ended and fixed-term part-time employment (r=0.68) is intuitively clear since both contractual forms are complementary. One can plausibly assume that a majority of open-ended part-time employment is the continuation of fixed-term part-time work. The same explanation can be given for the positive correlation between fixed-term part-time work and fixed-term full-time work (r=0.34), in other words: a substantial part of fixed-term part-time contracts might lead to fixed-term full-time contracts, although such interpretations cannot directly be derived from such correlations.

A bit more difficult to explain is the strong correlation between fixed-term part-time employment and part-time self-employment (r=0.62). Common underlying causal factors of this correlation are probably supply constraints, in particular of single or married women (or of the few single men) having children who can devote only part of their time to gainful employment. This interpretation is corroborated by the significant correlation between open-ended part-time work and part-time self-employment (r=0.49).[70]

The most interesting result of this exercise is the strong negative correlation between full-time self-employment and open-ended part-time work (r=-0.46), which indicates a substitutive relationship between these forms of non-standard employment. This would mean, as far as this interpretation is correct, that not all forms of non-standard employment are driving labour force participation – at least not for all target groups. This substitutive pattern forecasts the decline of full-time self-employment in favour of part-time employment especially for countries that need to catch up with the 'developed' countries in terms of non-standard employment and labour force participation. Furthermore, it can be assumed that formerly self-employed people in agriculture, retailing or sweat-shops transit into dependent part-time work and combine this small but regular income with volatile income from various kinds of informal work on the side (especially in small-sized agricultural production), moonlighting or even illegal work.

The differentiation of these observations by gender provides further hints to the reasons of rising non-standard employment. Figure 52 and Figure 53 present the non-standard employment rates similar to Figure 51, but now separately for women and men. They clearly show that the variation of non-standard employment among women in the EU is much higher than among men. The minimum and maximum non-standard employment rates for men vary between 8 percent (Estonia) and 30 percent (Netherlands) in 2008; however, for women, they range from 6 percent (Slovak Republic) to 56 percent (Netherlands). Whereas non-standard employment of women increased (apart from Romania and the Baltic states) in almost all EU member states, especially in the Netherlands and Germany, the pattern of dynamics is mixed for men: The small Baltic States, and also Greece, experienced a decline, and only a few of the countries (Italy, Poland, and Netherlands) show a substantial increase in male non-standard employment.

[70] One is also tempted to explain this correlation by the possible combination of gainful part-time work (as the main and reliable income source) and part-time self-employment (as experimental area of additional income or 'self-realisation'). However, the nature of the data does not allow this conclusion since individuals are counted by the main occupation they are reporting. Nevertheless, as we will see later, this combination may indeed play an important role.

Figure 52 Aggregate non-standard employment rates in Europe, 1998-2008, Women

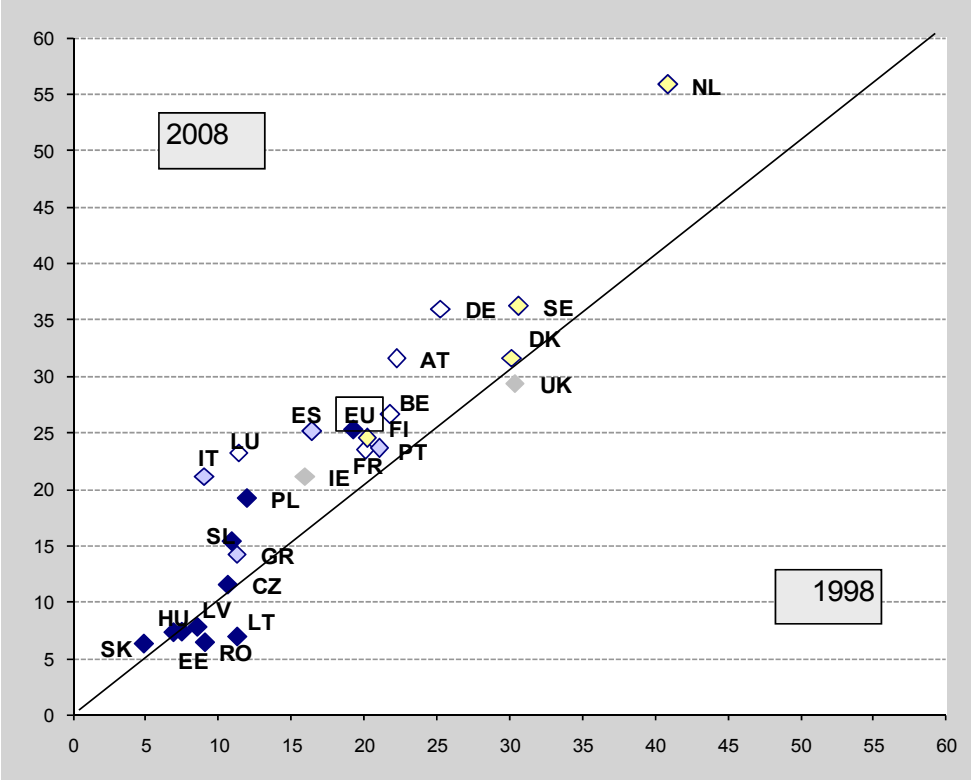
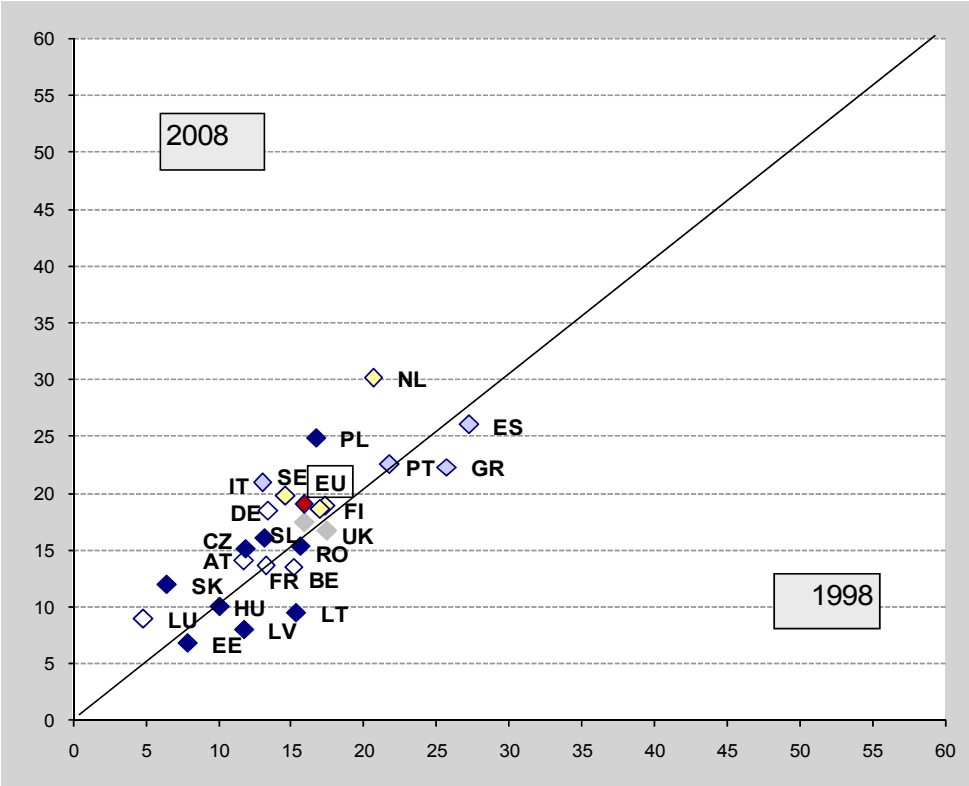


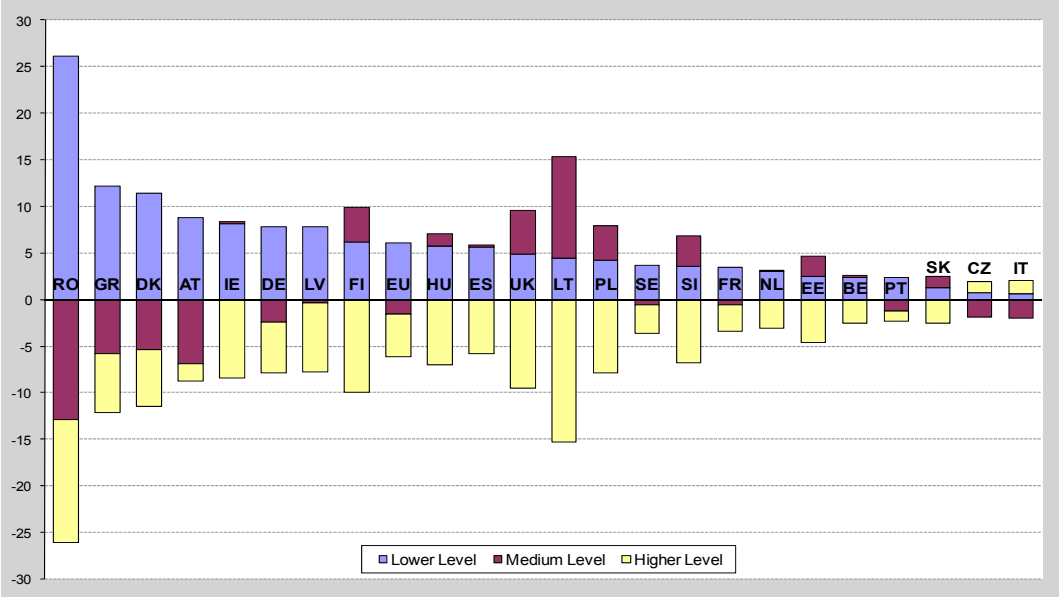
Figure 53 Aggregate non-standard employment rates in Europe, 1998-2008, Men



Source: Eurostat LFS; own calculations; the “aggregate” non-standard employment rate includes part-time, fixed-term and self-employment, controlled for overlaps.

The differentiation according to education[71], surprisingly, does not provide a clear pattern. One would expect a concentration of non-standard employment among low-skilled people which is, as we find at first glance, only partly true (see the table in Appendix 5.3). Whereas non-standard employment among low-skilled people is common in Mediterranean countries like Portugal, Spain and Greece many highly skilled people in non-standard employment can also be found in the 'social-democratic' regimes like Denmark, Sweden and Netherlands. Confronting the shares of non-standard employment by qualification with corresponding shares of these skill levels in total employment, the pattern becomes clearer (Figure 54).

Figure 54 Share of skill-groups in nonstandard employment compared to their shares in total employment in Europe 2008 (differences in percentage points)



Source: Eurostat LFS; own calculations

Without any exception, low skilled people are overrepresented in non-standard employment, however, with great variation across EU member states. We find, for instance, about 12 percentage point overrepresentation in Denmark, 8 in Germany, and only 3 in the Netherlands (six percentage points being the EU-average). At medium skill level, the pattern is mixed, whereas at high-skill level, high skilled people are underrepresented in most countries (especially in Eastern European new member states), with the exception of Italy and Czech Republic.

6.3 Explaining the Dynamics of Non-standard Employment

[71] According to ISCED (1997): *Low*=ISCED 0-2 (pre-primary education; primary or first stage of education of basic education; lower secondary education or second stage of basic education); *Middle*=ISCED 3-4 ([upper] secondary education; post-secondary non tertiary education; *High= 5-6 (*first stage of tertiary education [not leading directly to an advanced research qualification]; second stage of tertiary education [leading to an advanced research qualification]). The reader, however, should be aware of the dubious validity of these levels for comparative aims (Müller 2007).

Many possible factors would have to be taken into account to explain the dynamics of non-standard employment. One would have to start with structural changes on the supply and demand side including their interaction, and then scrutinize institutional as well as policy determinants as reactions to these changes, for instance taxation, social security reforms and labour market policies targeted towards specific groups like elderly and women. Last but not least, changes in labour market regulation, especially those targeted to non-standard work, would have to be considered.

In the following, a pragmatic approach – instead of following a systematic analytical framework – shall be applied to bring some insights at home.[72] Leaving aside text book wisdoms like wage elasticity at the supply side or marginal productivity at the demand side, such a perspective is both guided by interesting patterns observed as well as by considerations of policy relevance.

The basic assumption guiding these considerations is the expectation that **non-standard employment is not only a risky and often unpleasant side effect of the new employment dynamics. It is, first of all, a central requisite for high labour force participation in a modern economy in which both men and women want to combine family, life and labour market work.** It can also be anticipated that in a knowledge economy people of all ages want to combine life-long-learning and work; and it seems also plausible that in an ageing society – in which the proportion of young and old fundamentally change – age is becoming an asset and not (only) a burden. Furthermore, non-standard employment in the form of part-time, temporary or own account work may also replace, to some extent, flexible adjustment forms within the standard employment relationship (e.g. short-time work, overtime, job rotation) which have evolved in large-scale internal labour markets related to mass production in manufacturing. It seems that in knowledge based service economies, dominated by project-oriented work organization and horizontal labour division, employers probably have to rely more on external flexibility with respective higher labour turnover. The resulting increase in non-standard employment forms with corresponding higher risks for workers, then, would imply the necessity of developing new securities to avoid new forms of labour market segmentation.

6.3.1 Is non-standard employment driving labour force participation?

Before starting to test the relationship between non-standard employment and labour force participation in a preliminary and descriptive way, the two main reasons for expecting a positive relationship shall be made explicit.

First, from the demand side perspective, deepening labour division due to globalisation or internationalisation and information technologies requires a flexible work organisation in which individual job security may become a barrier rather than a requisite of high productivity. This does not mean that job tenure becomes obsolete as a requirement for cumulating experience and cooperation among complementary skilled workers. But it is safe to assume that either job security has to be combined with multiple skills, or individual job security has to be replaced by individual employment security in order to enable employers to mix the skills according to the

[72] For economic text-book versions see, among others, Ehrenberg/ Smith (2003); in the framework of comparing employment systems Schmid (2008, chapters 2 and 3); from a sociological point of view and related to the perspective of 'precarious work' see Kalleberg (2009).

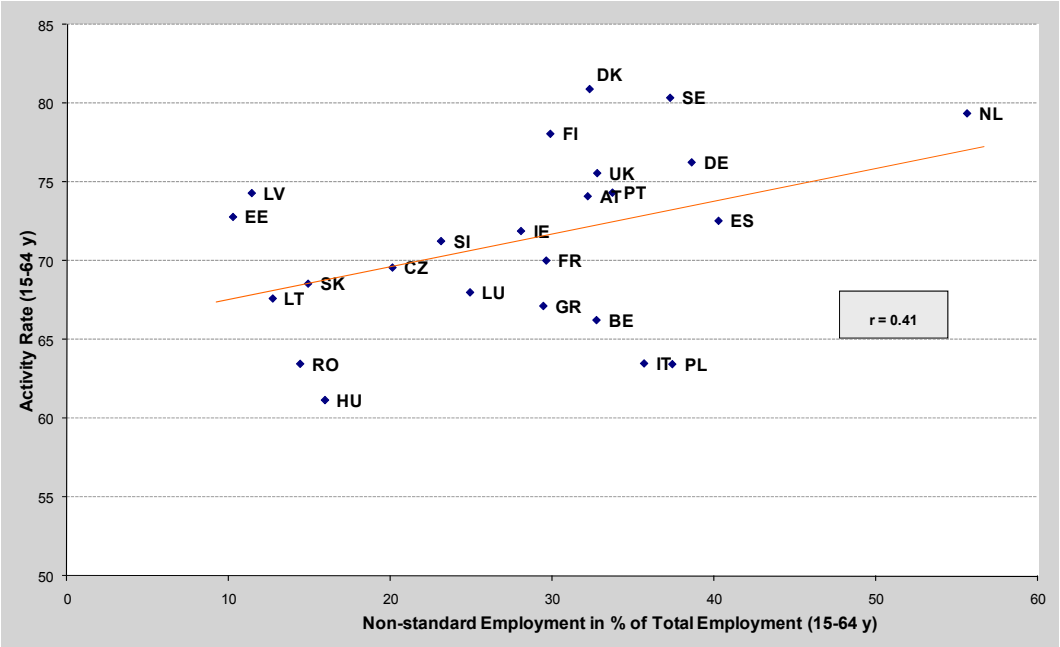
changing tasks related to high-skill diversity production often based on projects or network types of work organisation (Marsden 2004).

Second, from a supply side perspective, rising labour force participation of women, especially of those with high skills, increases coordination problems – for both men and women – between gainful labour market work and work related to care or education which money can't (or should not) buy. Furthermore, higher living standards may induce to value free time for leisure or self-productive activities higher than additional market income, leading to claims of opportunities to transit between various employment relationships over the life-course.
Both kinds of reasoning lead to the expectation that labour force participation and non-standard employment are developing in a parallel way. This expectation would be (at least provisionally) falsified by significant negative correlations between non-standard employment shares and labour force participation rates.

Aggregate non-standard employment

Figure 55, however, shows a – albeit not very strong – positive relationship between the aggregate share of non-standard employment[73] and activity rate in 2008 for 24 member states of the EU (excluded are Cyprus, Malta and Bulgaria). As the scatter plot makes clear, the Scandinavian countries and the Netherlands rank highest both in terms of non-standard employment shares and labour force participation; the new member states, but surprisingly also Italy, rank lowest.

Figure 55 Aggregate non-standard employment in percent of total employment and activity rate (2008)



Source: Eurostat LFS; own calculations

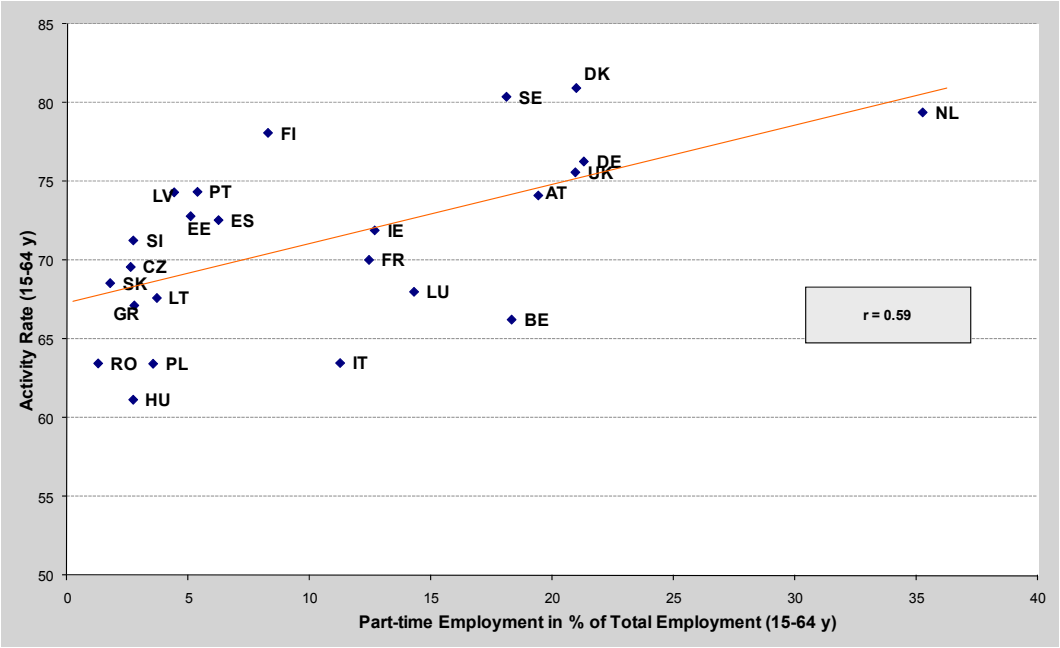
[73] Notice that we use here the shares of aggregate (part-time, fixed-term, self-employment) non-standard employment in total employment to avoid multi-collinearity, since non-standard employment rates are parts of labour force participation.

The 'causal' interpretation of this figure would be substantiated if the change of both variables (the activity rate and the share of non-standard employment) would go in the same direction. Checking this for the change from 1998 and 2008 (not shown here), we find a positive but not significant sign (r = 0.16). The scatter plot, however, hints to – especially for the new member states – erratic movements that destroy the expected stronger correlation. It is very likely, that the overall relationship between non-standard employment and activity rates is "spoiled" by possibly opposite links between the components of "non-standard" jobs. So, a look on the differentiated correlations might give a clue.

Part-time employment

Figure 56 shows the relationship between the share of part-time work (as a percentage of total employment, on the horizontal axis) and the overall activity rate (on the vertical axis). This relationship turns out – not unexpectedly – to be positive again and much stronger than the relationship discussed in the previous section (between overall non-standard employment and the activity rate).

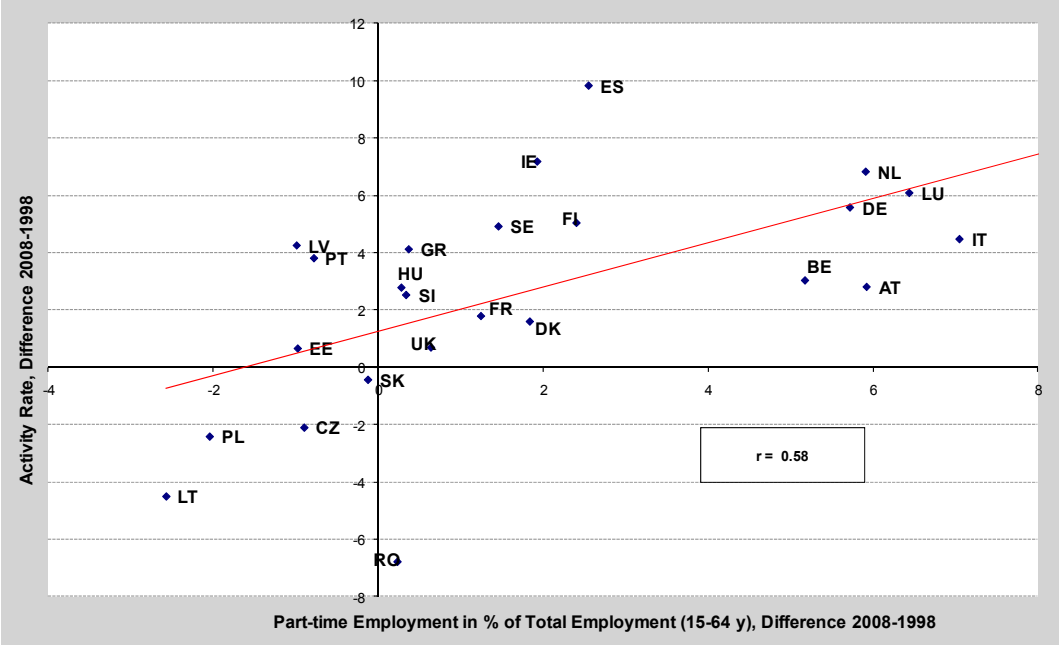
Figure 56 Part-time employment in percent of total employment and activity rate (2008)



Source: Eurostat LFS; own calculations

However, such figures only describe a 'static' relationship, valid for the year 2008. It is also interesting to see whether a 'dynamic' relationship exists. Is the *growth* of part-time employment also related to the *growth* of economic activity? This question can be answered with the help of Figure 57. It compares the increase of the part-time employment shares between 1998-2008 (in percentage points) on the horizontal axis and the increase of the overall activity rates between 1998-2008 (in percentage points) on the vertical axis. Figure 57 thus tells us that since 1998 the share of part-time workers in the Netherlands has increased by 6 percentage points while the overall activity rate has increased by 7 percentage points.

Figure 57 Change of part-time employment share and change of activity rate (differences 2008-1998, in percentage points)



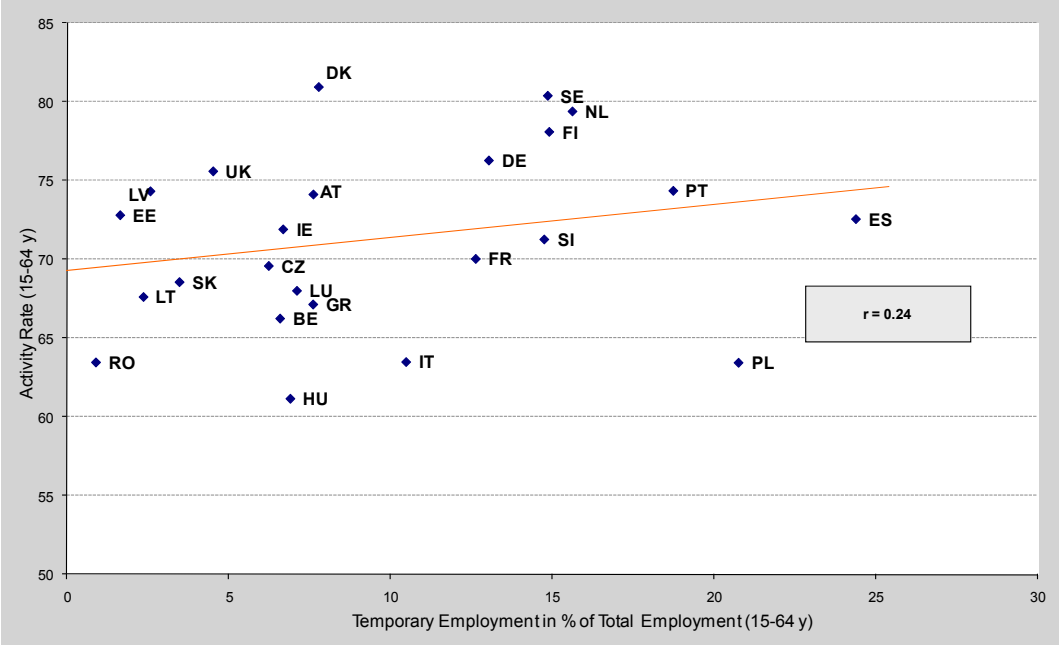
Source: Eurostat LFS; own calculations

Similarly, the share of part-time workers in Spain has increased by roughly 2.5 percentage points while the overall activity rate has increased by 10 percentage points. Overall it appears that the higher the increase in part-time employment between 1998-2008, the higher the increase in overall activity. Clearly, the assumption that part-time work drives labour force participation is thereby strongly supported by this 'dynamic' scatter plot. As to be expected, the correlation in the corresponding 'dynamic' scatter plot for women (not shown here) is particularly strong (r=0.64), but the nexus is also strong for men (r=0.43).

Temporary employment

The positive correlation between the share of temporary (or fixed-term) work and the activity rate, however, is rather small (Figure 58). This weak relationship indicates already that fixed-term work contracts play a quite different role within the various employment systems represented in the European Union. Two outliers in Figure 58 are of special interest.

Figure 58 Temporary employment in percent of total employment and activity rate (2008)



Source: Eurostat LFS; own calculations

Although Poland's overall labour force participation is low, its share of temporary work is high. In this country, fixed-term employment rocketed from 514 thousand (1998) to 3,207 thousand (2008), whereas total employment stagnated. The reason probably is the lax regulation of temporary work which allowed until 2003 fixed-term chain contracts without any limit. Only in 2004, Poland introduced stricter regulation, except in the seasonal and temporary agency work sector. In fact, the height of fixed-term contracts was in 2007 and the number of temporary workers declined slightly in 2008.

On the other hand, Denmark's high labour force participation combined with exceptionally low shares of temporary work hints to an alternative to fixed-term contracts: low employment protection combined with high income security (through generous unemployment benefits) and high employment security (through active labour market policy). Thus, flexibility within the "standard" employment relationship might serve as a functional equivalent to external flexibility through fixed-term contracts, a point to which we will come later.

Temporary agency work

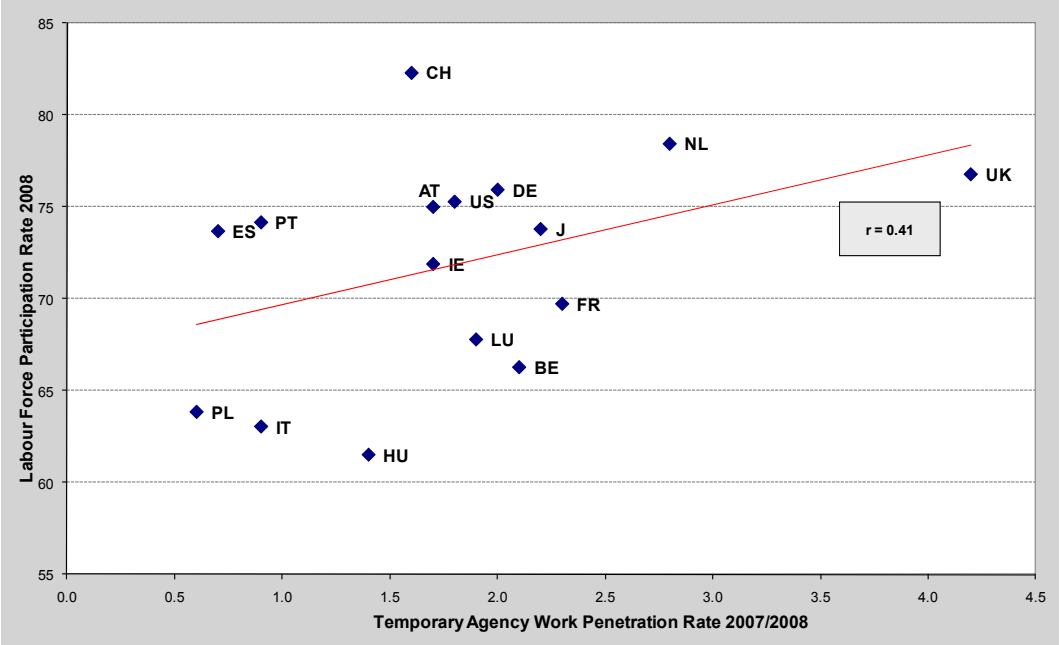
As fixed-term contracts obviously play a different role within the context of different employment regimes, it would also be interesting to look at various organisational forms of temporary work, especially at the role of temporary work agencies as possible mediators between employers' predominant interest in flexibility and employees' predominant interest in security. Professional temporary work agency firms might be able to pool the risks in a way to make both interests compatible or even complementary by establishing a virtuous cycle between flexibility and security.[74] A first hint for such a potential positive role has already been provided in this

[74] For an extensive discussion of the complex flexibility-security nexus, in which – apart from trade-offs – also virtuous and vicious cycles are possible, see Schmid (2008, chapter 8).

report, indicating a positive correlation between employment participation and voluntary temporary work (see Figure 45 in Chapter 5).

Unfortunately, as explained at the beginning, our Eurostat database is unable to separate different organisational forms of temporary work. However, combining the CIETT Statistics (see Table 34 in Chapter 5) with OECD statistics, we can look at the relationship between temporary work agency penetration and labour force participation rates in the Figure below.[75]

Figure 59 Temporary agency work penetration and labour force participation for selected countries (2008)



Source: Labour force participation (OECD Employment Outlook 2009); temporary agency work (CIETT, see Table 34 in Chapter 5). Labour force participation rates refer to persons aged 16-64 in UK, US, ES, SE; temporary work agency penetration rates refer to 2007 in DK, HU, IE, IT, PT.

Utilizing all statistical information, it turns out – not shown here – that the correlation is positive but weak (r=0.13).[76] However, if we skip the Nordic employment systems (DK, FI, NO, SE), in which temporary agency work is rather differently regulated than in continental or 'liberal' European employment systems,[77] we find a stronger positive relationship between temporary agency work and labour force participation (r=0.41). Again with proper caution, this evidence

[75] Temporary work agency penetration rate=average daily number of temporary agency workers full-time-equivalent as a percentage of total employment.

[76] However, due to data restrictions, the country set differs from that used in the other tables and figures. On the one hand, it excludes some EU-member states; on the other hand it includes Switzerland (CH), the United States (US), Japan (J), and Norway (NO).

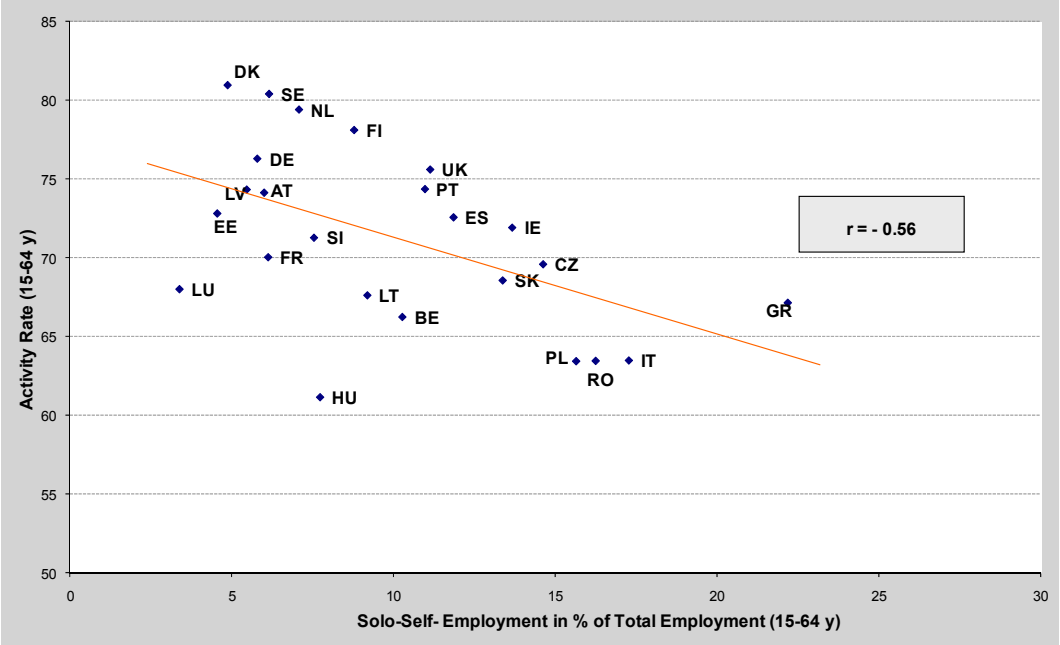
[77] Most important is, first, the late liberalization of temporary agency work; second, the dominant modus of collective agreements, especially in Denmark and Sweden; the upward dynamic in both countries (from a very low level), however, is remarkable. For more information see chapter 5.3 of this report, and Ahlberg/Bruun (2008), Arrowsmith (2009), Coe et al. (2007), Hansen et al. (2009).

allows the conclusion that at least some part of the higher labour force participation might be related to the 'driving force' of temporary agency work.[78]

Self-employment

The factor really 'disturbing' the expected parallel development of non-standard employment and labour force participation comes with the third component of 'non-standard' jobs, the category of (full-time working) self-employed. Here, the scatter plot shows a surprisingly strong negative correlation (Figure 60).

Figure 60 Self-employment (own account workers without employees) in percent of total employment and activity rate (2008)



Source: Eurostat LFS; own calculations

If we distinguish between men and women (not shown here), this negative correlation is especially strong among women (r=-0.66). It is very likely that the share of self-employed (own account work without employees) is still strongly related to the importance of agriculture which is corroborated by the fact that this share declines in the respective countries (such as Greece, Spain and most of the new member states). It is probably safe to say that a 'causal' point for a positive correlation between self-employment and activity rate can only be made related to the modern type of own account work which is completely unrelated to agriculture and rather connected with the so-called creative sector. The latter informed speculation might also be the reason that own account work even increased in some rather 'developed' countries like Netherlands, Germany, Austria, UK and Denmark.

[78] Note, that this observation does not allow a statement on the quality of related jobs. This requires looking at the individual level and long-term job sequences ('careers') related to the (potentially positive) intermediate role of temporary agency work.

Concluding

The speculation gets a bit more save by exploiting our possibility to differentiate between full-time and part-time self-employment under the assumption that part-time represents more the modern type and full-time more the traditional type (especially related to agriculture) of own account work. Table 38 shows the correlations between changes in the share of non-standard employment components and changes in labour force participation, and provides some interesting insights. For example the growth of part-time open-ended employment in 1998-2008 is closely linked to the growth of overall labour force participation, resulting in a relatively high correlation coefficient (0.60). This suggests that open-ended part-time employment could be an important driver of overall participation.[79]

Our expectation is at least partly corroborated by the different signs between part-time and full-time self-employment in the expected direction. There seems to be a positive relation between the growth of part-time self-employment and overall participation (0.27), while growth of full-time self-employment is negatively related to participation growth (-0.25). Furthermore, the strong correlation between the change of the share in part-time self-employment and change of labour force participation for women (0.39) indicates that own account work may indeed serve as driver of labour force participation at least for women.

Table 38 Correlates of the changes in the share of non-standard employment components and the change in labour force participation (1998-2008)

	Total	Men	Women
Part-time open-ended	**0.60**	**0.48**	0.65
Part-time fixed-term	0.27	**0.40**	**0.08**
Part-time self-employed	0.27	0.21	0.39
Full-time fixed-term	-0.10	-0.02	**-0.15**
Full-time self-employed	-0.25	-0.26	**-0.03**

Source: Eurostat LFS, own calculations

The correlation matrix reveals three further insights. First, the change in open-ended part-time work strongly correlates with the change in labour force participation, for the total and both for women and (a bit less) for men, which confirms our previous results. Second, it is interesting to see, that part-time work in fixed-term contracts correlates with labour force participation only for men in a 'significant' way, not for women. This pattern (tentatively) may reflect the fact that temporary part-time serves only for men as effective stepping stone for participating in the labour market. The dynamics of temporary full-time employment is not at all related to the dynamics of labour force participation.

To summarize this part, it is evident that only the availability of part-time work can be considered as a strong driving force of labour force participation. This conclusion is corroborated by the quite strong correlation (r=0.58) between the changes of the activity rates and changes of the shares in part-time work from 1998 to 2008. The correlation becomes even stronger considering only open-ended part-time work without self-employment. Temporary work, however, and especially own account work play an ambiguous role that would have to be specified for the target groups of increasing labour force participation, especially related to women, the young and

[79] We can only speak of a suggestion here, because obviously a correlation is by no means the same as a direct causal relation.

the elderly. There is some reason to believe that temporary agency work can support higher labour market activity of people who otherwise would become 'outsiders' (the young, long-term unemployed and returning women) if properly regulated and professionally organized. There is also some evidence that part-time self-employment drives female labour force participation.

6.3.2 Is non-standard employment related to structural change?

Finding a positive relationship between structural change in the economy and non-standard employment would further corroborate the expected parallel development of non-standard employment and labour force participation. The expectation would be disconfirmed if we would find a significant negative relationship between growing industries and non-standard employment.

A direct preliminary test would be, again, a simple correlation with non-standard employment and the most dynamic growth sectors of the economy in terms of employment. As the proper statistical data basis for this exercise is not available, we present only scattered evidence from other sources.

First, a special study in *Germany* (Statistisches Bundesamt 2008) about the sectoral composition of non-standard employment shows that wholesale and retail trade, restaurants and hotels, business services and social (especially health) services are most prone to non-standard employment; the least prone to non-standard employment are the declining sectors of manufacturing (apart from temporary agency work being heavily concentrated in this sector) and construction (in which temporary work agency was completely prohibited until 2003, since then only partly deregulated).

Second, two shift-share analyses, again in *Germany*, come to the result that structural changes in sectoral and in gender composition of employment explain some part of the decline in standard employment (and, vice versa, of increasing non-standard employment). A study (covering the period of 1991 to 2007) finds that structural change of gender composition explains eight percent of the decline in standard employment; and structural change in the sectoral composition explains 16 percent (Sachverständigenrat 2008, p. 438). Another study, only concentrating on West-Germany and the period of 1985 to 2005, allocates even 27 percent of the decline in standard employment to structural change in the gender composition and 22 percent to structural change in the sectoral composition (Schäfer and Seyda, 2008).

Chapter 5 of this publication provides a very informative sectoral breakdown of temporary and part-time employment for all EU member states and for 2007/ 2008. If we look at countries with both high shares of part-time work and labour force participation, a clear pattern emerges: There are two sectoral clusters contributing most to part-time work: first wholesale, retail & repair plus hotels & restaurants; second, education, health & social work plus other community, social and personal services.

The picture related to temporary work is not as clear-cut. In most countries, temporary work is overrepresented (relative to the average) in 'other community, social and personal services'; the same holds true – with a few exceptions (for instance the Netherlands and Poland) – in education, health & social work and in hotels & restaurants (exception Denmark). In countries with exceptional high shares in fixed-term contracts but low participation rates, temporary work

is typically concentrated in sectors with seasonal characteristics or other peculiar conditions. Spain, for instance, employs in construction 45% of the work force in temporary work, and 32% in agriculture. Agriculture also attracts high shares of temporary work in Germany (13%), Italy (35%), Slovakia (9%) and Hungary (8%). Poland's temporary workers are also highly concentrated in construction (35%) and to an unusual extent in hotels & restaurants (41%); Poland is also exceptional in having a high share of temporary work in manufacturing (30% as compared to 11% for the EU-27 average).[80] Temporary work (not necessarily restricted to fix-term employment, but usually related to this contract type) does not show a clear sectoral or occupational pattern. It seems that this form of temporary work plays – according to the respective employment regime – different roles: from replacing people on (growing) leave schemes, thus contributing to the stability of the core work-force, to simple cost-cutting strategies, thus contributing to shifting employment risks to the most vulnerable workers.

For an intermediate summary, it seems worthwhile to briefly reflect on the sectoral pattern of part-time work which we have identified as the main driver for labour force participation. Both sectoral clusters in which part-time work is concentrated share a low level of labour division in producing or providing the services and a high share of self-servicing. Most of these services – especially the expanding education, health and social services – are directly oriented towards persons, often in interactive form. Many of these services have been provided in former times by unpaid household work or barter exchanges in neighbourhoods. All in all, the driving force of part-time work seems to be grounded in the interaction of changing work preferences (especially among women) and transforming formerly unpaid services into market transaction ('marketisation').

6.3.3 Institutional determinants of non-standard employment

As elaborated in the preceding section, structural change explains – both on the supply and the demand side – some but even not the major part of the dynamics in non-standard employment. Other determinants have to be considered, especially related to target groups with low labour force participation like women, the elderly and low skilled people (or even more generally the "inactive") .[81] Obviously, institutional change – which means changes in the rules of the labour market game – has to be taken into consideration for further explanations.

First of all, economic incentives through changing institutions of wage formation or tax treatment would have to be considered. Unjustified *gender wage gap* through open or statistical discrimination are one possible factor blocking or slowing down the rise in female labour force participation (Mandel/ Semyonov 2005). The same holds true if non-standard employment is systematically punished by lower wages per hour, which is an established fact especially related to fixed-term employment (Schoeman et al. 1998).

Well established is the fact that *equal tax treatment* for married women has a strong positive effect on female labour force participation. Married women, especially if they work part-time, are taxed more heavily than men or single women in many OECD countries. Sweden is a good example where the transfer from joint to separate taxation in combination with other family friendly policies has led to higher labour force participation among women. A study for 17 OECD

[80] An analysis of self-employment according to industries or occupations was not possible here.

[81] Fighting effectively unemployment, especially long-term unemployment, would increase employment, but not necessarily labour force participation since the unemployed are counted to the active labour force.

countries shows that women will participate more when they are being taxed separately and equally compared to men (Jaumotte 2003), and another study attributed to the change from tax allowances to non transferable tax credits of a recent Dutch tax reform a positive impact on female labour force participation (Bosch/ van der Klaauw 2009).

Parental leave arrangements, both in terms of costs and duration, are important drivers of labour force participation, too. They are relatively well researched in the meantime, although the links between institutional arrangements and labour supply reactions can be quite complicated. Two main results, however, are well established. First, the *availability of affordable care services* is a strong positive driver, whereas *long parental leaves* combined with entitlements to return to the job produce ambivalent results, improving participation on the one hand but leading to wage and income penalties on the other hand (Esping-Andersen 2002).
Drivers of labour force participation for elderly are also well studied (OECD 2006). Most important for early retirement were strong incentives by generous *pension entitlements* not calculated on an actuarial basis, a policy that most of the EU member states withdrew in the meantime. Some countries (for instance Germany) still have strong seniority based wages which reduce the transition probability into early retirement at least of the healthiest people. On the other hand, however, seniority wages hamper transitions of elderly unemployed back into employment, leading them often to escape into inactivity and on alternative transfer schemes like disability pensions. Comparative research also indicates that non-standard forms of employment, especially part-time and new self-employment in service related local jobs can help keeping the elderly active on the labour market (Hartlapp/ Schmid 2008).

Much neglected is the low labour force participation among low-skilled people, hinting to the possibility that an egalitarian *education policy* might be one of the most effective policies to increase labour force participation. Taking the European Employment Strategy's main goal of full employment, namely, to reach an overall employment rate of 70 percent by 2010 and an employment rate of at least 60 percent for women, then the breakdown by qualification immediately shows where the main problem lies.[82]

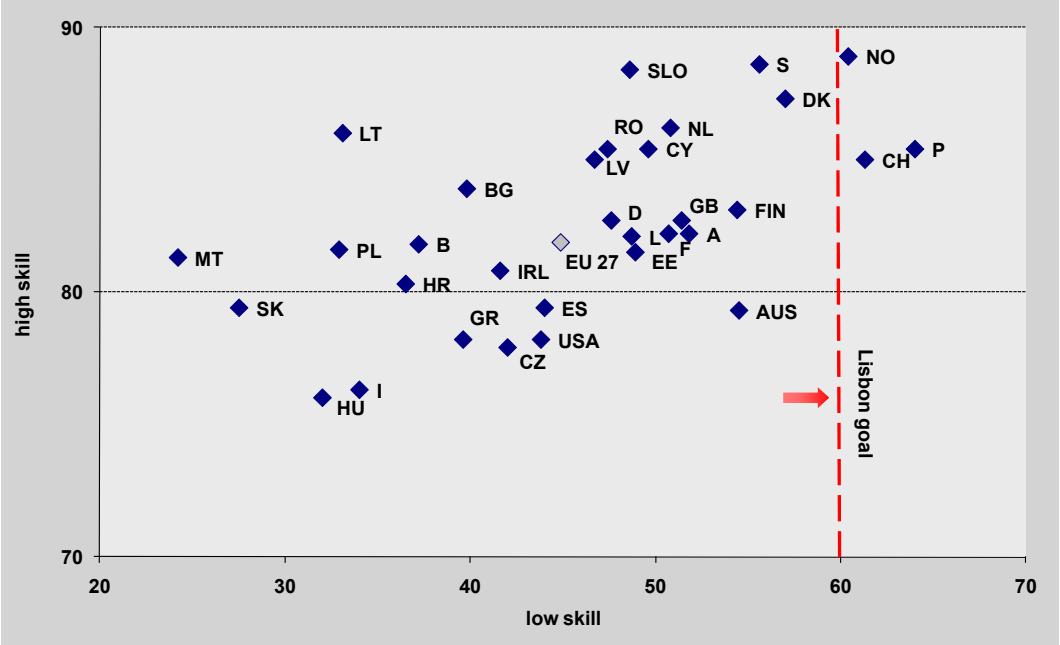
Taking women as the main target group for raising labour force participation at the EU-level, highly skilled women already surpass the benchmark of 60 percent by 15 to 25 percentage points, almost regardless of the kind of welfare regime involved. It is the low-skilled women whose opportunities for (employment) participation in the labour market are seriously compromised.[83] Portugal, Norway and Switzerland are the exception, with employment rates of women already over 60 percent. At the overall EU-27 level, low-skilled women are – with an average employment rate of about 45 percent – 37 percentage points below the average employment rate for highly skilled women. The employment rate of *highly skilled* Dutch women, to take an example of a 'progressive' country, is relatively high and matches almost that of the Scandinavian countries. However the Dutch figure for *low-skilled* women is still far away from the Lisbon target,

82 I refer here to ‚employment participation' because the skill level of the total active labour force is not as easily available; both figures, however, strongly correlate.

83 The difference in employment rates between highly skilled and low-skilled people is also present among men but slightly less marked. I also abstract from critical qualifications with respect to the employment rate as proper benchmark for employment policy. Apart from the quality of jobs, working time would have to be taken into account, especially for women who overwhelmingly work part-time, many even in marginal jobs. Information on full-time equivalents would be necessary if increasing working volume (important for economic prosperity) is the goal.

although it is above the EU-27 average. Figure 61 proves this graphically; on the vertical axis is the employment rate for high-skilled women, while on the horizontal axis is the employment rate for low-skilled women. The latter shows that in nearly all the countries the participation of low-skilled women is below 60%.

Figure 61 Employment rates of women (25-64 years old) by skill level, 2008 (2006)



The figure includes some Non-EU countries for the sake of comparison: (AUS = Australia, NO=Norway, USA=United States of America, CH=Switzerland); "low skill" (ISCED 0-2), "high skill" (ISCED 5-6). Source: Eurostat; AUS and USA (OECD Employment Outlook 2008, Table D, year 2006). For abbreviations of EU-countries see Appendix 1.

Finally, a prominent candidate for being a barrier instead of a driver for labour force participation is employment protection regulation. Although its influence on employment dynamics is well researched in the meantime, its impact is still much contested.[84] As such, high employment protection shields the 'insiders' against the risk to become unemployed. The other side of the coin, however, is the higher risk of unemployed or inactive people (the 'outsiders') to remain unemployed or inactive. Among the 'outsiders', employment protection might reduce the employment chances especially for young people looking for their first job and for women trying to re-enter the labour market. Because other institutions or labour market policies might intervene, the available empirical evidence for the theoretical expectation of segmentation is not clear-cut. Employment protection can foster, for instance, cooperation among employees in the firm, thereby increasing productivity and competitiveness, which eventually can result in higher labour demand, thereby reducing or at least mitigating segmentation. Forms of non-standard employment, thereby, might play the role as mediators or stepping-stones to transform employment potentials into real and sustainable employment.

However, employment protection might drive non-standard employment also for other reasons. Fixed-term contracts allow employers to circumvent employment protection or to combine

[84] For an overview of the state of the art see OECD (2004).

external flexibility (hire and fire) with job security for the core work force. Both possibilities lead to the same consequence: segmentation between 'insiders' (with standard contracts) and 'outsiders' (with non-standard, fixed-term contracts).

The theoretical relationship between employment protection and part-time work or self-employment is more difficult to establish. Open-ended part-time work is not more flexible than standard employment, and it is, as we have already seen, very much supply driven and dominated by women. New self-employment (especially in the form of 'dependent' or fake self-employment) on the other hand, could be used for outsourcing certain functions, so that a slight positive link between employment protection and self-employment might be expected, especially if employment protection is combined with high non-wage costs related to social security financing. To test these expectations, we restrict ourselves again to a descriptive test by simple correlations, which should be complemented in further research by multivariate analyses. Table 39 present these correlations, between several forms of employment protection (vertically) several forms of non-standard employment (horizontally).

Table 39 Correlates between employment protection and non-standard employment rates

	Non-standard employment rate		Part-time empl. rate	Fixed-term empl. rate	Self-employment rate
	Men[1)]	Women[2]	Total[3)]	Total[4)]	Total[5)]
Individual employment protection[6)]	**0.33**	0.12	-0.12	**0.53**	0.10
Collective employment protection[7)]	0.22	0.14	0.08	0.13	0.08
Temporary employment protection[8)]	0.25	0.05	- 0.16	**0.46**	0.17
Combined employment protection[9)]	**0.39**	0.13	- 0.16	**0.62**	0.19

Source: Eurostat; OECD 2004; own calculations
Figures in bold 'significant' (N=24 member states of the EU; Bulgaria, Malta and Cyprus excluded)
1) Men in part-time, fixed-term or own self-employment in percent of working-age men (15 to 64) (2008)
2) Women in part-time, fixed-term or own self-employment in percent of working-age women (15 to 64) (2008)
3) Employees in open-ended part-time (without self-employed) in percent of working-age population (15 to 64) (2008)
4) Employees in fixed-term contracts in percent of working-age population (15 to 64) (2008)
5) Employees in own self-employment (without part-timers) in percent of working-age population (15 to 64) (2008)
6) Indicator composed of eight characteristics of employment protection against individual dismissals (OECD 2004)
7) Indicator composed of four characteristics of employment protection against mass dismissals (OECD 2004)
8) Indicator composed of six characteristics of employment protection in case of temporary work (OECD 2004)
9) Indicator composed of 6), 7) and 8); all four indicators represent employment protection regulation around the year 2003; according to OECD-Employment Outlook 2008 (p. 132) no significant changes can be reported since then; most changes were related to temporary work in the direction of stricter regulation.

The results largely meet the expectations. Generally, high employment protection seems to induce high non-standard employment among men, the correlations however are not strong (r=0.39). The signs related to non-standard employment of women go in the right direction but the correlations are quite weak. Decomposing non-standard employment into the three elements of part-time work, fixed-term employment and self-employment confirms quite clearly that individual employment protection drives up fixed-term employment (r=0.53) but not part-time work (r=-0.12).

The coefficients for self-employment have the right sign, but are rather weak. Employment protection especially directed towards temporary work also correlates positively with the fixed-term employment rate (r=0.46), although the causal link might be the other way round (growing temporary work might induce tightening regulation). Collective employment protection seems to

play no role in determining non-standard employment. Finally, the combined indicator of employment protection hints to a quite strong correlation (r=0.62) with the employment rate in fixed-term contracts.

6.3.4 Preferences for non-standard employment

It is evident that asking people themselves about their preferences should provide insights into the reasons for non-standard employment. This raises, however, a measurement problem. Preferences cannot be directly measured, since preferences are not fixed or even not inherited. Preferences are also expression of economic constraints and cultural influences. It remains therefore unclear whether responses to corresponding questions reflect genuine choices (as expression of autonomy or free will) or the results of external constraints and influences.
Despite these caveats, it makes sense to take notice of such surveys since they represent the results of individual decisions interacting with external constraints. Thus, being aware of contextual conditions, changes of such preferences in time and across countries might tell a story.
The European Labour Force Survey (ELFS) contains information about the reasons people are giving for being in part-time or temporary (fixed-term) work.[85] In the following, however, we cannot exploit the whole potential of this information available and have to restrict ourselves to some impressions.[86]

For part-time work (and year 2005) the following peculiarities are worth to be emphasised: A majority of women in Germany (57%) and UK (45%) mentioned 'looking after children or incapacitated adults' as reason for working part-time; both countries are known as having relatively conservative attitudes related to gender role models. This reason has little or no importance in countries having a reputation for progressive family and gender policy, for instance the Scandinavian countries, the Netherlands and France. Here, many women just do not want to work full-time (Netherlands 74%, France 57%, and Denmark 41%).[87]
With the exception of Netherlands, the reason of not having found a full-time job is also common in these countries (France 29%, Sweden 25% and Denmark 18%). Employment in part-time due to education or training is only substantive in Denmark (31%), although many students work part-time as well in the Netherlands. Finally, a remarkable share of women in Sweden (11%) works part-time for reasons of illness or disability. Especially for the latter two reasons, it would be desirable having this information broken down both by age and gender.
For temporary work or fixed-term contracts (here referring to 2007), 'person could not find a permanent job' is the most important reason given in almost all countries. In Greece, Portugal and Spain, over 80 percent of temporary workers prefer a permanent job (or an open-ended contract). The average in the 27 EU member states is 60 percent. Countries with a vocational

[85] Related to *part-time*, the possible reasons are: (1) undergoing school education or training; (2) own illness or disability; (3) looking after children or incapacitated adults; (4) other family or personal reason; (5) could not find a full-time job; (6) other reason; (7) none of these reasons applies. Related to *temporary work* (fixed-term), the possible reasons are: (1) contract covering a period of training (apprentices, trainees, research assistance, etc.); (2) could not find a permanent job; (3) did not want a permanent job; (4) probationary period; (5) none of these reasons applies.
[86] The following figures are taken from SEO (2008).
[87] The interpretation of these results is corroborated by Gash (2008). The methodological subtlety of this study consists in the indirect measurement of preferences by comparing transition rates (into full-time, inactivity, other employment) of part-time workers with corresponding transition rates of full-time workers. By statistically controlling transition probabilities for socio-demographic and other factors, part-time working women in the UK remain longer in this status and in the same job than in Denmark or France.

training system in form of apprenticeship (combining 'on' and 'off' the job training) deviate from this pattern since apprentices per definition have a temporary contract, e.g. Germany (25%) and Austria (20%); combining education and temporary work is also common in Denmark and the Netherlands (about 35%).

The pattern becomes even more pronounced if we concentrate on the age group of 15 to 24 for which we found already a concentration of temporary work. In Austria and Germany, over 80 percent of young people give 'education or training' as the primary reason for being involved in a temporary contract, in Denmark 50 percent.
Finally, in some countries, for example in Scandinavia, and especially in the UK, a substantive minority (about one third) doesn't want a permanent job. One reason could be the difference in wages and working conditions. In Denmark, for instance, it is reported that working conditions and wages for professionals and specialists, e.g. in the health sector, are often better in temporary work agency contracts than in 'regular' contracts since higher employment insecurity related to these temporary contracts is compensated by higher wages (Ahlberg/ Bruun 2008, 41). Wages and working conditions in 'everyday-labour-markets', however, seem to be universally connected with less attractive wages and working conditions, independent of the employment regimes.

6.3.5 Reasons for self-employment

The analysis would need further differentiation according to the different components of non-standard employment to get a full understanding of their dynamics and various functions they play in the modern labour market. Since the state of the art is already quite developed for part-time work and for temporary work (including temporary agency work), we just refer here to some literature and turn to some additional reflections related to self-employment, especially in the form of own account work.[88]

A study on the development of female self-employment on the basis of the ELFS (Strohmeyer/ Tonoyan 2007) reports that most of the increase in own account work from 1995 to 2005 took part in form of part-time work (54% compared to 15% in full-time self-employment); the same pattern can be seen among men. The share of part-time working women in own account work ranges from 11% in Greece, over 18% in France, 32% in Sweden, 38% in West-Germany to 68% in the Netherlands. On the basis of a Heckman-Probit estimation, the authors also found that "having a family with children" turned out as the most important driver for the choice of part-time work in self-employment. This pattern is especially strong in so-called "conservative welfare regimes" where public care facilities are still underdeveloped, and where traditional values concerning labour division in the family still prevail. Unfortunately, the study is silent about the combination of part-time self-employment and dependent part-time work. However, the great share of marginal part-time in self-employment seems to imply that – as we already speculated looking at the corresponding correlations – such combinations are quite common.

[88] For non-standard employment see Mangan (2000) and Houseman/ Osawa (2003); on part-time work Leschke (2008) and Sciarra et al. (2005); related to temporary work the 'classic' Schoeman et al. (1998); for temporary agency work Storrie (2002); for self-employed Arum/ Mueller (2004).

This informed speculation is corroborated by a recent study in Sweden (Delmar et al. 2008)[89], which hints to a stepping-stone function of part-time self-employment. The authors find persons who combine own account work with wage work constitute a majority of the total number of self-employed. Most people enter own self-employment by engaging first in combinatory work, indicating that the decision to transit into self-employment is more complex than characterized in earlier research.

Three "transitional motivations" might explain this astonishing pattern: First supplemented utility maximization, which means attaining psychological utility from self-employment by retaining at the same time economic security from dependent wage work (so to speak balancing flexibility and security on an individual level); second providing a hedge against the potential risk of unemployment; third reducing uncertainty associated with entry into self-employment or exit from self-employment. 91 percent of dependent employees enter self-employment as combiners, and only 9 percent of them start with full self-employment. Of all combiners, 68 percent go back into dependent wage work, and 32 end up as pure self-employed. Finally, 61 percent of the pure self-employed transit at one stage or the other in their life course to dependent employment, and 39 percent transit to a combinatory status.

6.4 Policy Debate

Before discussing the main results, a big caveat is at place. Although a remarkable body of research on the consequences of non-standard employment for income, employment stability or social security is already available, important pieces of information are still missing.[90] Proper risk assessment of non-standard employment would require the analysis of individuals' long-term transitions sequences over the life course (careers) to uncover whether risky events end up in status maintaining, integrative or exclusionary transitions.[91] Equally important are deeper studies on the functions of non-standard employment at the level of firms, especially whether they are mainly used as instruments of short-term cost reductions and shifting the burdens of risks to the non-standard employees or as instruments to improve long-term competiveness through diversified high quality production and enabling especially school leavers and young adults to accumulate work experiences and to improve their work-life balance in the 'rush hour of live'.

The first question to be raised is the consequence of non-standard employment for social security, especially in old age. In as far as pension entitlements are related to wage income, the corresponding first conclusion is to attack any wage discrimination that might be connected with non-standard employment contracts. As this might be self-evident for some countries, e.g. for Netherlands, for many EU member states it is not. Any gender wage gap obviously hurts above all women who are overrepresented in part-time work. Related to fixed-term employment, countries with no legal minimum wage are especially prone to wage discrimination. The main risk

[89] The empirical basis of this study is unique and representative for all cases of self-employment in Sweden from 1990 to 2002.

[90] For the most recent state of the art in the spirit of 'transitional labour markets' (TLM) and 'flexicurity' see the excellent volume edited by Muffels (2008).

[91] For criteria and examples of proper risk assessment (including the important element of communicating risks and from a TLM point of view), see Schmid (2006).

of (new) self-employment is the extreme volatility of the income stream over the life course, and many own account workers even remain at the lowest income level for a long, if not all the time.

The flip side of this coin is positive wage discrimination. One example is continued salary pay in the critical event of illness often linked to the employment status.[92] Small or medium sized employers are less able than large employers to reinsure this risk with the likely consequence that they tend to escape into fixed-term contracts in order to reduce this risk. Another and more important example are seniority wages, which originally served as an insurance device smoothing individual productivity changes over the life course. The rationale of this internal labour market institution diminishes with the need of higher external flexibility. As the corresponding coupling of pension entitlements to the last wage before retirement became unjustified, most countries have abolished this rule in the meantime. Nevertheless, even if pension entitlements now are consequently linked to average life course income, the transition to an intermediate spell of non-standard employment (especially part-time) or to substantially lower paid jobs does not yet pay. Under the assumption, however, that such mobility is necessary due to better adapting to structural change or reduced individual earnings capacities, or even desired due to changes in preference over the life course, better insurance is required to offset the related risks of unemployment and income volatility (Kalleberg 2009, p. 16). One possibility would be to extend unemployment insurance towards an employment insurance that makes valuable transitions pay, among other through continuous vocational training accounts, life course saving systems or wage insurance (Schmid 2008, chapter 8).

The second question relates to the financing source of social security. The rise in non-standard employment logically implies not to link fund raising for social security too closely to the standard-employment relationship. Otherwise, the employment contract becomes, indeed, more and more an 'exclusionary device' (Knegt 2007). Strategies to reconstruct the employment contract to an inclusionary device – which means to develop a new standard-employment relationship – are manifold. The respective varieties in the EU member states still require more systematic screening before one could start to recommend simple alternatives. Nevertheless, the principle alternatives are clear: extension of individual or collective private insurances, linking social security to citizenship status ('basic securities') or making public social security institutions – especially the employment contract – more inclusive. Many countries, for instance, have started to make additional private or collective insurance mandatory for employers and workers independent of their employment status. France, The Netherlands, Switzerland, Denmark and Sweden, for instance, have reached an almost universal coverage of the employees by firm or branch level additional insurances. In contrast, for instance to Germany, these countries arranged such an extension either by law or by legally extending corresponding collective agreements. At the EU level, such national activities could be induced by directives, especially for own account workers for whom – in contrast to part-time and temporary workers – no such binding regulatory framework exists.

Schulze Buschoff and Protsch (2008) argue on the basis of comparative studies that contributory financing systems with bottom down income thresholds are not suitable to cover the specific

[92] With respect to the obligation of the employer to continue paying an ill employee's wage in international comparison see Knegt/ Westerveld (2007); in the duration of this obligation (up to two years), the Netherlands is unprecedented in the rest of Europe.

risks related to non-standard employment, especially not for new self-employed. They argue for an extension of tax financed basic income guarantees to cover the risk of extreme income volatility related to self-employment and – to some extent – to fixed-term contracts. Tax financed basic income guarantees ('folks' pensions, national health insurance, earnings related benefits) seem better able to balance flexibility and security than contributory insurance schemes often based on corporate arrangements.

Basic income guarantees, however, usually offer only limited income protection in old age, and they are not designed to compensate for the higher income risks related to non-standard work. Some countries, therefore, introduced risk contingent schemes in various forms, either through risk related contributions (higher premiums for higher risks, as it is common in work accident insurance) or through mandatory contributions to training or employability funds. France (higher social security contributions for temporary agency workers), Denmark and Sweden (better wages and working conditions for skilled temporary agency workers) and the Netherlands (contributions targeted to training and employability for temporary agency workers) provide here 'best practice'. The existence of such 'active securities' probably makes workers more inclined to take over the risks related to non-standard employment. And to the extent that such schemes induce an 'entitlement effect', they might even promote higher employment in the formal sector and thereby labour force participation.

The third question is to what extent in-built flexibilities into open-ended employment contracts should be considered as functional equivalent to non-standard employment. It seems that to a certain degree, internal flexibility can substitute external flexibility through in-built flexibility of the open-ended "standard" contract, for example, working time variability over the life course or job rotation. Contracts that include the possibility of long-term working-time accounts are already one observable trend as an instrument to build in flexibility over the life course into the employment contract without affecting seriously income and employment security. Research, however shows, that the risks related to a fair implementation should not be underestimated. Employers, on the one hand, tend to use such accounts to overcome economic slumps like in the present times (2009/10), and small as well as medium sized enterprises seem to have difficulties to use this instrument. Furthermore, the state has to enter the game by ensuring claims to time accounts both in the event of insolvency of firms and workers' transition between firms. On the other hand, employees often prefer cash (e.g. for working overtime) to time as an investment in an uncertain future. Especially tempting for them is the use of such accounts for early retirement instead of investing the accumulated accounts into employability measures, a behavioural feature that doesn't fit with the objective of raising labour force participation.[93]

Sweden delivers a good example for the consequences of increasing in-built flexibilities in terms of employment or labour force participation. The Swedes can be proud of having one of the highest employment rates of about 74 percent and well above the Lisbon goal. However, their effective employment rate – the rate of people in working age population actually working during the week – is only in the size of about 64 percent. Though precise statistics explaining this difference between 'nominal' and 'effective' employment rate does not exist, the potential factors explaining this discrepancy are clear. The 'good' reasons are: despite an open-ended contract in dependent fulltime work (or a standard employment relationship), many people do not work because they are on educational, parental or care leave. The 'bad' reasons are: despite an open-

[93] See, for instance, Delsen/ Smits (2009), Roman (2006), Wotschack/ Hildebrandt (2008).

ended contract in dependent fulltime work, many people are not working because they are ill, in psychological trouble or absent for undeclared reasons.[94]
In as far as the discrepancy between 'nominal' and 'effective' employment rate is not only a universal trend but also to be recommended for enhancing flexibility and security, then the full-employment goal of the Lisbon strategy set at 70 percent for 2010 is far too modest. In the long-term, this benchmark probably has to be set at 80 percent, a benchmark that the Dutch and Swedes already established in their national employment programmes.

The trend towards non-standard forms of employment, finally, raises the question whether all this leads to – or even whether we need – a new 'standard employment relationship'. Expanding the institutional status of the employment contract to all forms of employment, including even unpaid but socially highly valued work as proposed for instance by Supiot (2001), seems to be the most radical and most promising route towards a new standard-employment relationship. The main aim is the move from protecting jobs to protecting people or from job security to labour market security (Auer 2007). The old standard employment contract would be transformed into a new labour contract which includes income and employment risks related to transitions between various employment-statuses. The core is the establishment of new social rights and (neglected in the much quoted Supiot-Report) new social obligations to both sides of the labour market.

The *new social rights* would be new in that they cover subjects unfamiliar to industrial wage-earners on which the traditional standard employment relationship builds: rights to education and training, to appropriate working hours, to a family life and to occupational redeployment, retraining or vocational rehabilitation. Their scope would also be new since they would cover not only "regular" wage-earners but also the self-employed, the semi-self-employed, temporary work agency and marginal workers. They are new in nature because they often take the form of vouchers or social drawing rights, which allow workers to rely on solidarity within defined and perhaps collectively bargained limits when exercising their new freedom to act.

The *new social obligations* would be new in that they cover subjects unfamiliar in the traditional employment relationship: obligations to training and retraining both for employees as well as for employers, to actively searching a new job or accepting a less well paid job, to healthy life styles and occupational rehabilitation, to work-place adjustments according to the capabilities of workers, and to changing working times according to the needs either related to the individual life course or to volatile market demands of goods and services. The scope of new social obligations would also be new since they would cover not only certain categories of workers or employers but also the core workers in open-ended contracts and all firms independent of size and function. They would be new in nature since they often take the form of 'voice', i.e. being ready to negotiate at individual, firm, regional and branch level in order to reach mutual agreements and to accept compromises in case of different interests.

[94] Another reason for the discrepancy between 'nominal' and 'effective' employment rate could be institutional. Germany's part-time scheme for 'gradual' retirement (now abolished) provides an extreme example. The scheme subsidised five years part-time, of which the first half (2 and 1/2 year) could be taken as full-time, the second half as zero-time. Notice again that we used self-reported part-time figures. Thus, in the German 'block-model' of part-time work for elderly it might well be that the elderly 'part-timers' report that they work full-time in the first half of the scheme, but report being inactive or even not employed anymore in the second half of the scheme.

In brief: The establishment of social rights and new social obligations into an inclusive employment contract would ensure the development of capabilities that not only 'make workers fit for the market', but that also 'make the market fit for the workers' (Gazier 2007). The management of working time flexibility over the life course thereby is, as we have seen, probably the most important driver of labour force participation that meets the otherwise empty 'flexicurity' ideal.

6.5 Summary and Conclusions

(1) The main result regarding the nexus of non-standard employment and labour force participation is quickly told: it is part-time work – especially in its open-ended form of dependent work – which drives labour force participation. This holds especially (and obviously) true for women but also (and less obviously) for men. The overall driving capacity of temporary work, i.e. the employment relationship in fixed-term contracts, so far was weak. However, it might become a forceful and welcome driver if good quality of jobs or stepping-stone-functions are provided, but it may also remain driven itself mainly by cost-cutting considerations of employers. Self-employment is ambiguously related to labour force participation since– in the long-term – countervailing tendencies let expect rather stagnation than an extension of this employment form.

(2) The second important result is a deeper understanding of the dynamics of non-standard employment. The standard employment relationship defined in its traditional and narrow way (as an open-ended and dependent full-time employment relationship) declines and 'non-standard' forms increase. For the 24 EU member states represented here, the employment rate in part-time, fixed-term and self-employment (overlaps controlled) rose from 17.5 percent (1998) to 22.3 percent (2008). The huge differences between the EU member states show a clear pattern: The 'social-democratic' employment regimes (Netherlands included) are at the top, but non-standard employment rates are also high in family centred 'conservative' and in 'liberal' regimes. Apart from Poland (which deregulated – until recently – temporary work in an exceptional radical way), all East-European new member states are 'underdeveloped' in terms of non-standard employment.
Whereas temporary work is mainly driven by cost competition and new forms of work organisation, the main underlying causal factors for part-time work are women's strive for economic independence and the transformation of formerly unpaid family work into market work. Thus, globalisation, information technologies and 'feminisation' of the labour markets are the megatrends standing behind the increase of non-standard employment. Furthermore, the positive relationships of non-standard employment with labour force participation and GDP growth indicates that an increasing variety of employment relationship may well be one of the preconditions for a sustainable economic dynamics and prosperity.

(3) The third important result relates to the differentiated role of the three components of non-standard employment. Part-time work has clearly the strongest weight in this 'partnership'. As it is (still) taken up mainly by women, this form of non-standard employment reflects above all restrictions in labour supply due to family obligations. And as many tasks, especially caring tasks, cannot or should not be transformed into market transactions, flexibility of working time will

further be required if gender equality and work-life balance are highly estimated. Thus, non-marginal part-time employment in the form of open-ended part-time contracts say in the range of 20 to 35 hours a week deserves to be counted as part of a new standard employment relationship. For temporary work, we observed a relatively slow upward movement, if not a stagnating trend. Poland is the great exception, but there are signs that the new regulation here might stop the rocketing upward movement in the last ten years. The study also made quite clear that temporary and open-ended part-time work are complementary due to their double function as recruitment channel for employers and as career-bridge for school leavers and young adults. Although the Eurostat database did not allow a distinction of different forms of temporary work, other sources make clear that temporary agency work (although not necessarily restricted to temporary work) may play an increasing role as intermediate employment form and drive labour force participation by mobilising long-term unemployed and inactive members of the workforce.

Regarding self-employment, first attention should be drawn to the overall stagnating or even declining trend of this non-standard form of employment. Only a minority of the EU member states experienced (mostly from a low level) an increase in self-employment in the last ten years. This result sharply contrasts optimistic expectations of many policy makers and some researchers who sometimes see in self-employment a panacea for job creation or increasing labour force participation. However, it became also clear that this component of non-standard employment deserves much deeper research, all the more because the phenomenon of fake self-employment erodes the strict borderlines between dependent work and genuine self-employment.
Since we were not able – at this stage of research – to skip self-employment related to agriculture, our data set contains probably two different kinds of own account work: a traditional type related especially to agriculture and partly to conventional petty bourgeois self-employment, and a modern type related to the 'creative sector' and to the new professionals in information and communication technologies. Whereas the traditional type is declining, thereby contributing to a negative relationship between self-employment and labour force participation, the modern type of own account work might contribute in two ways to increased labour force participation: first by new professional (full-time) jobs for new markets, second by offering a combination of 'inactivity' (mostly activities in unpaid care work) and gainful work or by providing a stepping stone for inactive people, for instance for women after parental leave, or for elderly after (early) retirement. This assumption is partly confirmed by the weak but positive relationship of part-time self-employment with labour force participation especially for women.

(4) The fourth grave result is the unequal distribution of non-standard employment among socio-economic groups. This observation, although not new, is all the more relevant since the usual higher risks related to non-standard employment in terms of income, unemployment, social security in old age and partly even in terms of health are sources of new inequalities if welfare states are not able to adjust their institutions to this new dynamics. Low-skilled people are overrepresented, whereas highly skilled people are underrepresented in non-standard employment. The overrepresentation of low-skilled concerns especially people in fixed-term contracts, whereas highly skilled people are substantially represented in part-time employment only in a few ('modern') countries. Temporary work concentrates especially on school leavers and young adults, whereas women are strongly represented in own account work, especially in its growing part-time form. The other side of the coin is the extremely poor level of labour market participation among the low-skilled which hints to the need of substantive efforts especially in

education policy to overcome this deficit. As far as education is (or even should be) related to 'on-the-job' training, temporary work (including temporary agency work) might provide important 'midwife services'.

(5) These observations were reason to ponder a bit more about the underlying causes that erode the traditional standard employment relationship. Looking at the distribution of non-standard employment by industrial branches, the assumption of a continuous transformation of unpaid household work into market transaction driving especially part-time work and increasing female labour force participation was confirmed. This process encompasses the whole economy but concentrates on a few and in part strongly growing sectors (business and health services). In addition, one can observe some common features in this process contributing to explain or understand the changes in the employment relationship. We find non-standard employment often in sectors with low depth or breath of labour division (retail trade or reparation), or in sectors with strong seasonal characteristics (agriculture, construction, hotel and restaurants, tourism), or in sectors related to personal services (education, health, care) which often require interaction and availability all around the clock (24 hours economy). This pattern underlies the likelihood that non-standard employment will further increase, but it also reminds that the rationale for open-ended (long-term) full-time employment contracts is still resilient.

(6) Labour market institutions also play a role. Taxes and social security contributions provide economic incentives both for the labour demand and supply side to search for employment forms with the highest returns or the lowest costs. High income taxes or social security contributions certainly do not encourage own account work except the respective people circumvent those rules by choosing informal ('black work") or even illegal forms of employment. On the slip side of 'going informal', however, we find lack of social security in case of illness or old age as well as hidden forms of exploitation or even Mafia-kind employment relationships.[95] We also found a surprisingly strong negative correlation between (formal) labour force participation and full-time self-employment, which hints to the necessity of constructing – in terms of social security – a more inclusive employment relationship if one intends to stimulate this 'non-standard' form of employment for the sake of its supposedly creative and innovative functions. One possibility would be to subsidise social security contributions in times of low and volatile income, and progressive social security contributions in times of high earnings. An alternative would be to radically change the framework conditions for multiple forms of employment and frequent transitions between these forms through a more inclusive labour law and social security legislation.

(7) Unequal taxation of male and female income favours marginal forms of part-time with high risks related to sustainable labour market careers and social security in old age. It also favours the traditional role division between men and women. The same holds true for non-targeted forms of wage subsidies in form of in-work-benefits, that allow combining wage and transfer income ad ultimo but keeping people, especially women, in low wage jobs without promotion opportunities. One has also to be aware that albeit "mother-friendly" policies might enable more women to become economically active, they also might exacerbate gender occupational inequality. Comparative research shows that lower earnings differentials between men and women in

[95] The Nobel Prize winning economist Amartya Sen (2001, chapter 11) saw in the Mafia even a functional equivalent to formalized structures and entitlements to social security.

developed welfare states with high labour force participation are probably to be attributed to their more egalitarian wage structures rather than to their family policies. Cross-national research also indicates that in contrast to extended maternal leaves, expansion of public sector employment and the provision of services such as subsidized day care are suitable instruments to increase labour force participation without doing harm to economic outcomes for women (Jaumotte 2003, Mandel/ Semyonov 2005).

(8) High employment protection drives – as expected – fixed-term employment, especially for men. Fixed-term contracts allow employers to circumvent dismissal protection or to combine external flexibility (hire and fire) with internal security for the core labour force (employment protection) with respective loyalty and – may be – higher productivity. Both options lead to a segmentation of the labour market in so called 'insiders' with open-ended contracts and 'outsiders' with fixed-term contracts. Employment protection regulation, therefore, would have to be developed in a way that both flexibility and security complement each other in a functional way without enhancing the inbuilt tendencies of labour market segmentation. A 'best practice' case of such a regulation is the Austrian new severance pay act (2003) based on 'inclusive' mandatory employers' contributions according to which each dismissed worker receives a payment, an entitlement that can be put into a savings account even if the person has only a brief employment record or quits the job on his or her own. The former system required a minimum contribution period of three years, a rule that excluded most flexibility-enhancing workers who had low average employment spells. It trapped employers as well (especially small-scale ones), who accumulated substantial liabilities in the form of severance entitlements held by their employees with long periods of service (Schmid 2008, p. 293). Scattered anecdotal evidence hints to the potential positive role of temporary agency work in balancing flexibility and security through risk pooling and risk sharing (see also chapter 5 in this report).

(9) Cultural factors also play a role in choosing – in as far as this choice is free at all – non-standard employment relationship. Unfiltered responses to preference questions, but also a few sophisticated studies provide evidence that women of 'conservative' welfare regimes are still not very supportive to the transformation of care work into market transactions. They choose part-time work mainly for the reason to combine unpaid family work with some additional market income. With respect to temporary work, the most important – and probably increasing – preferential reason is to combine education or continuous training and education with gainful work or to accumulate vocational experiences of various kinds in order to maintain or to improve employability. Due to their risk-pooling capacity, temporary work agencies might play an important role for optimal job matching and recruitment, especially for school leavers and young adults. In countries with high levels of fixed term contracts also for mature adults (like Spain or recently Poland), however, having no other choice is the main reason for temporary jobs, which means lack of jobs with open ended contracts. Such countries, probably, have to come to a more balanced regulation of 'flexicurity', not least for the sake of higher productivity enhanced through the 'psychological contract' fostered by open-ended contracts.
Good studies on preferences and on the dynamics over the life course are especially missing related to (new) self-employment. However, we found a 'best practice case' of research in Sweden which produced in part thrilling results that probably can be transposed to other comparable countries. Apart from unemployment as an important driver to choose self-employment, most people in dependent work who decide to become self-employed choose a

combination of dependent (part-time) employment and (part-time) self-employment to test under the 'safety umbrella' of dependent work whether own account work might become an alternative income source at the end. Many become fully self-employed at the end, the majority, however, returns to dependent work or keeps the combinatory status. Unfortunately, a conscious employment policy that systematically supports or encourages such trial and error processes is not yet in sight. Labour market policy, so far, reacted in some countries only with respect to the target group of unemployed for whom own account work, however, often is only an escape route rather than a sustainable solution. Nevertheless, as evaluation studies in the meantime show, employment or labour force participation can effectively be promoted by this way.[96]

(10) Last, but not least, our results hint to a great and in many countries unexploited potential as functional equivalent to non-standard employment: the flexibilisation of the standard employment relationship. The implantation of flexible elements into the open-ended full-time contract can take various forms: agreements on regulated time-offs (sabbaticals) for various reasons such as child care, care for the frail elderly or the ills or disabled among the members of the family, training or educational leaves, physiological or psychological recreation. Such agreements provide at the same time the relative security of a formal employment relationship as well as the flexibility of working time according to the needs of the life course. They would also foster flexibility without destroying the potential of open-ended contracts for sustainable 'psychological contracts' between employers and employees.
For the other side of the employment contract, the employers or managers responsible for competitive production or high quality services, corresponding framework conditions have to be created enabling them to cope with the increasing costs and with the adjustment of the work organisation. However, since such a new standard employment relationship extends the expectation horizon for both sides, the higher costs in the first round probably will be more than compensated in the second round due to higher motivation, job satisfaction, loyalty, productivity and competitiveness.

[96] For Germany, e.g., see Baumgartner/ Caliendo (2007).

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Appendix 5.1

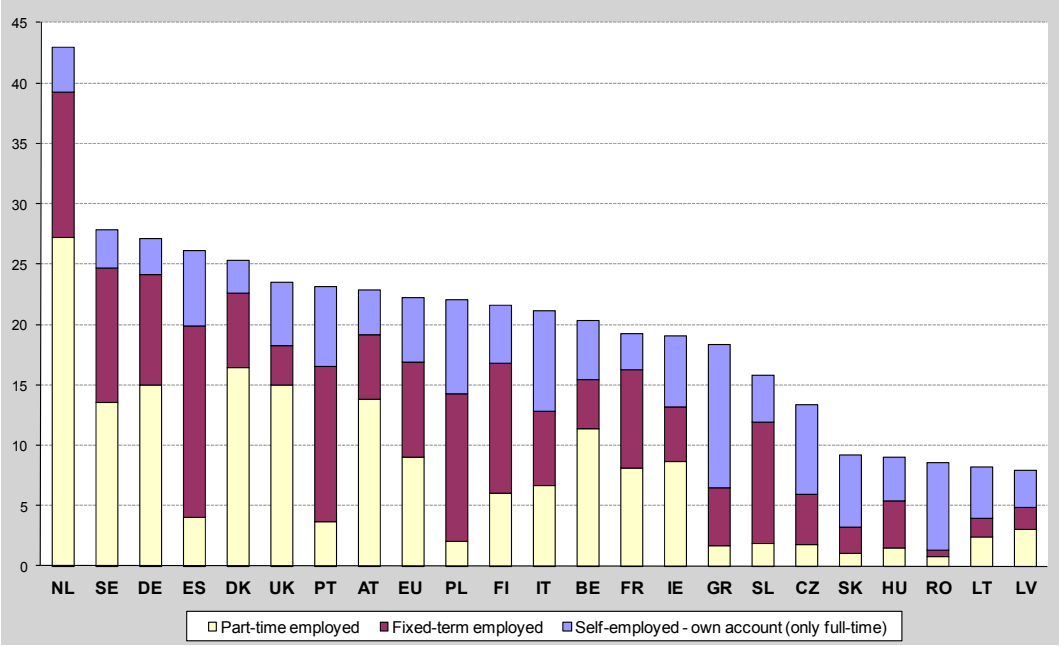
Country Abbreviations

AT	Austria
BE	Belgium
BG	Bulgaria *
CZ	Czech Republic
DK	Denmark
DE	Germany
EE	Estonia
GR	Greece
ES	Spain
FR	France
IE	Ireland
IT	Italy
CY	Cyprus *
LV	Lithuania
LT	Latvia
LU	Luxembourg
HU	Hungary
MT	Malta *
NL	Netherlands
PL	Poland
PT	Portugal
RO	Romania
SI	Slovenia
SK	Slovakia
FI	Finland
SE	Sweden
UK	United Kingdom

* Countries excluded in most parts of the analysis

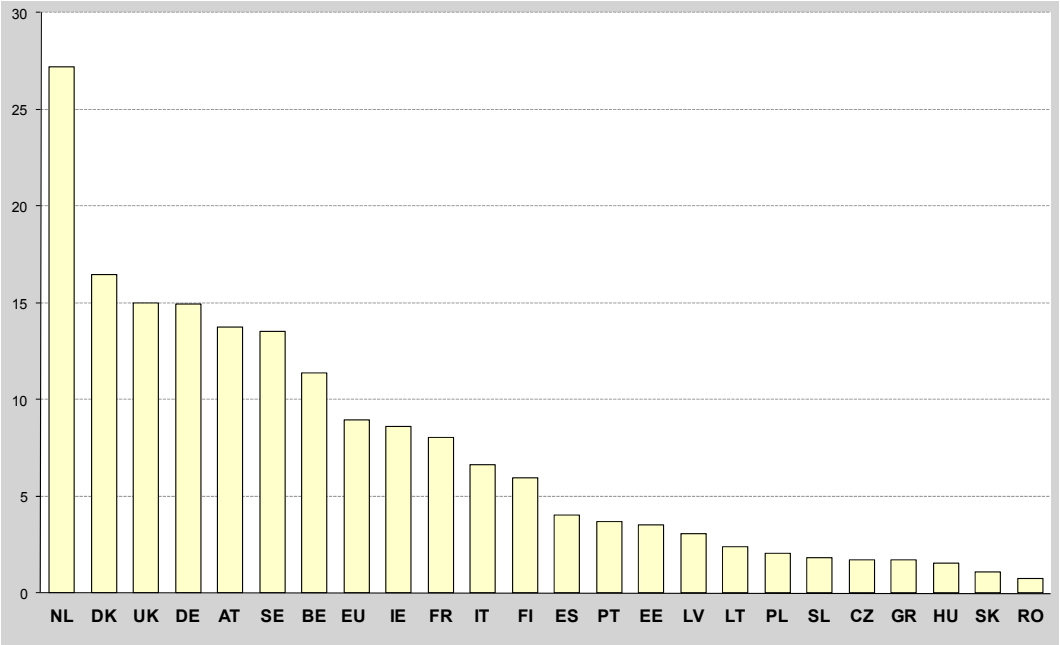
Appendix 5.2: Differentiated non-standard employment rates, 2008

A2.1:Non-standard employment rates in Europe according to three non-standard components, 2008



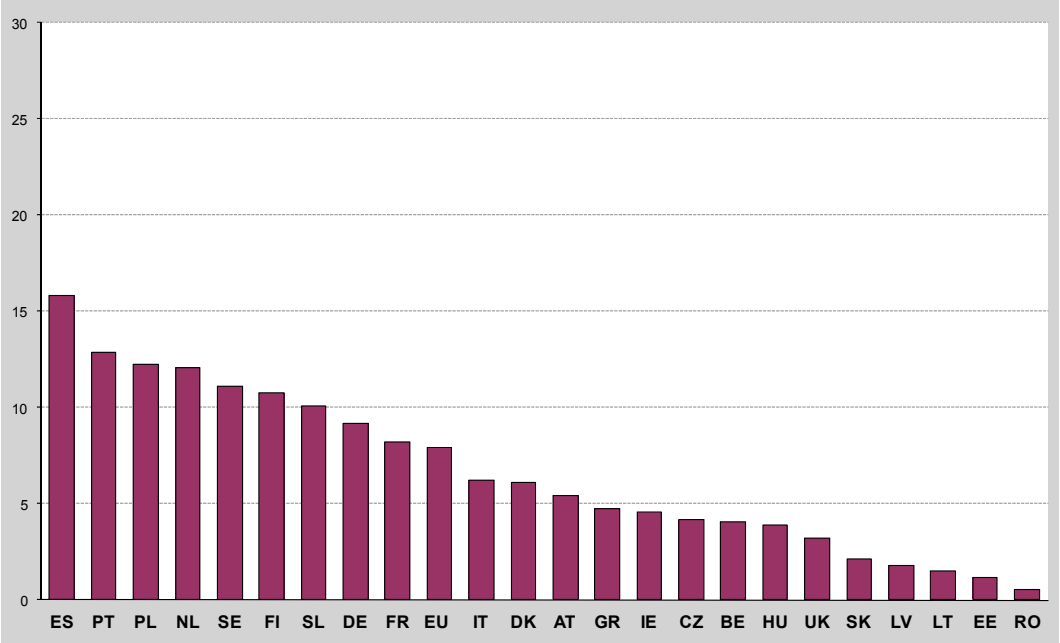
Source: Eurostat, Labour Force Survey; own calculations; yellow=part-time (including self-employed), red=fixed-term employment (including part-time), blue=self-employed (only full-time)

A2.2: Part-time employed persons (including self-*employed*) in percent of working-age population (age 15 to 64)



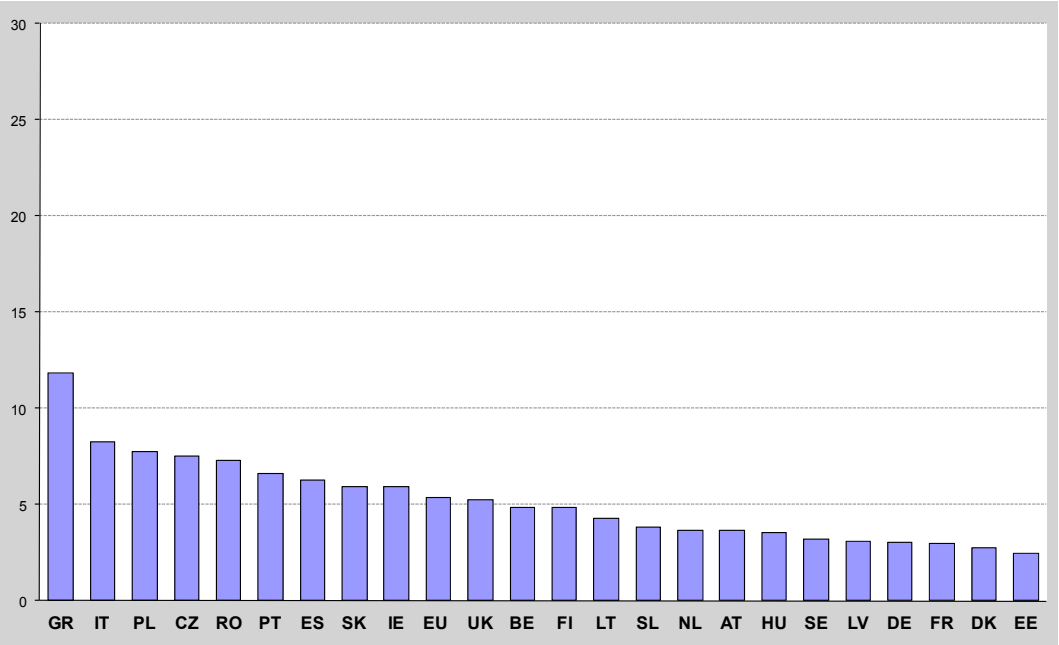
Source: Eurostat, Labour Force Survey; own calculations

A2.3: Fixed-term employed persons (including part-time) in percent of working-age population (age 15 to 64)



Source: Eurostat, Labour Force Survey; own calculations

A2.4: *Self*-employed persons (only full-time) in percent of working-age population (age 15 to 64)



Source: Eurostat, Labour Force Survey, own calculations

Appendix 5.3: Non-standard employment rates by skill, 2008

	Low	Middle	High
FR	5.3	8.6	5.4
AT	6.1	13.2	3.8
BE	4.9	8.7	7.3
CZ	0.9	10.3	2.2
DE	6.2	15.4	5.6
DK	8.7	9.2	6.6
EE	0.9	4.2	2.0
ES	12.7	6.3	7.3
FI	5.2	11.2	5.4
GR	8.5	6.3	3.6
HU	1.7	6.0	1.5
IE	6.1	7.7	5.6
IT	8.1	9.2	3.8
LT	0.9	6.5	1.7
LU	5.3	6.3	4.9
LV	1.7	5.0	1.4
NL	12.3	18.0	11.9
PL	2.8	15.8	3.4
PT	16.5	3.5	3.4
RO	5.2	5.5	0.2
SE	4.8	15.0	7.8
SL	2.8	10.4	2.6
SK	0.5	7.4	1.3
UK	5.8	11.3	5.3
EU (24)	6.6	10.7	4.9

Non-standard employed by skill level in percent of working age population (15-64 years). According to ISCED (1997): *Low*=ISCED 0-2 (pre-primary education; primary or first stage of education of basic education; lower secondary education or second stage of basic education); *Middle*=ISCED 3-4 ([upper] secondary education; post-secondary non tertiary education; *High= 5-6 (*first stage of tertiary education [not leading directly to an advanced research qualification]; second stage of tertiary education [leading to an advanced research qualification]).

Source: Eurostat, Labour Force Survey, own calculations.

Appendix A Index of figures & tables

Tables

Figures

Appendix B Literature

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Appendix C Acronyms

actuarially neutral social security	Social security in which social security benefit is relative to the actual retirement age. Deciding to retire later than the statutory retirement age will lead to increasing social security wealth accordingly.
ALMP	Active Labour Market Policies; policies aiming to activate the inactive.
benefit sanction	Financial sanctions on individuals when monitoring job search behavior is insufficient.
CIETT	International Confederation of Temporary Work Businesses.
CoE	Council of Europe: has 47 member countries and develops European common and democratic principles.
dead-end job	Job position that offers no opportunity for further career improvement .
deadweight loss (in relation to wage subsidies)	Loss to society resulting from the fact that wage subsidies are not assigned to the target group .
decent work	Labour in conditions of freedom, equity, safety and human dignity (definition ILO).
defined benefit pension	Pension system in which the benefits are fixed, but contributions are flexible. Mostly unfunded, which means that pension risks are owned by the pension funds and/or their current contributors. See also '*pay-as-you-go system*'.
defined contribution pension	Funded pension system in which the contributions are fixed and the benefits are flexible. The employee bears his own pension risk, as the benefit depends on the return on investment.
EES	European Employment Strategy: employment guidelines for EU member countries.
effective retirement age	Age at which an individual retires, regardless of the statutory retirement age.
ELFS	European Labour Force Survey.
eligibility age	Age at which an individual meets the conditions of entrance to certain schemes.
employment rate	Number of employed as a percentage of the 'potential labour force'.
EPL	Employment Protection Legislation.
equal tax treatment	Married women, single women and men are all taxed individually, meaning that all are taxed the same. Similar to *separate taxation.*
EU	European Union.
family pay gap/ price of motherhood	The phenomenon that woman with children earn less compared to equally educated and experienced woman without children.
fixed term contract	Temporary contract directly between employer & employee, with a defined end date.
flexicurity	An integrated labour market strategy to enhance, at the same time, job flexibility and income security .
FTE	Fulltime equivalent (1 FTE is usually 36-40 hours per week, depending on country and sector).
GDP	Gross Domestic Product.
gender pay gap	Difference in wages between men and women.
GFSR	Global Financial Stability Report: semi-annual publication from the IMF.
grey rate	Population aged 65+ as percentage of population aged 15-64.
IDEAL	International Database of Employment and Adaptable Labour.

ILO	International Labour Organization: tripartite United Nations agency with a membership of 183 countries that draws up international labour standards.
IMF	International Monetary Fund: monitors the international monetary system and the economic and financial position of its 186 member countries.
joint taxation	Total household income is being taxed jointly, not individually.
labour supply elasticity	The degree to which labour supply is affected by a change in wages.
LFS	Labour Force Survey.
marketisation	Transformation of unpaid services into market transactions.
modern labour relations	All non-standard forms of employment.
monitoring	To closely observe and keep track of participants efforts (for example in ALMP).
net migration	Sum of immigration and emigration.
net net migration	Net sum of total migration from non-EU countries into the EU.
non-standard employment	employment other than full time employment with an open-ended contract: part-time work, fixed-term contracts, temporary agency work and self-employment.
OECD	Organization for Economic Co-operation and Development (in Dutch: OESO).
open-ended contract	Contract of unspecified duration; opposite of fixed-term contract. Equal to *permanent contract*.
part-time trap	When people (mainly women) get stuck in part-time jobs because of financial disincentives when wanting to work more hours .
pay-as-you-go system	Unfunded '*defined benefit pension*' system; also called we-pay-as-you-go. The benefits are to be paid by the current contributors to the system (employers, employee and/or public finance). (In Dutch: omslagstelsel).
penetration rate	Average daily number of temporary agency workers *FTE,* as a percentage of total employment in persons.
permanent contract	Contract of unspecified duration; opposite of fixed-term contract. Equal to *open-ended contract*.
potential employment gap	Hypothetic employment gap due to a disequilibrium between future supply and demand of labour.
potential labour force	Working age population, every person between 15-64 years.
replacement rate	Defines the size of social security entitlements, mostly as a percentage of of last earned income or average lifetime earnings.
SCP	Netherlands Institute for Social Research (in Dutch: Sociaal Cultureel Planbureau)
sectoral gap	The phenomenon that rising unemployment in some sectors goes together with vacancies in other sectors.
separate taxation	Each adult household member's income is being taxed independently of one another. Similar to *equal tax treatment*.
skills premium	Higher wages as a reward for higher education and therefore higher productivity.
social cohesion	The capacity of a society to ensure the welfare of all its members, minimizing disparities and avoiding polarization (definition CoE).
statutory retirement age	Constitutional age of retirement.
stepping stone effect	The effect that people from the labour market margins are brought into permanent employment, through a gradual entry via temporary jobs.
subsidized job	Artificially created job for disadvantageous job searchers.
substitution effect (in relation to wage subsidies)	The phenomenon that people who are helped by the wage subsidy are only helped at the expense of someone else.

temporary agency work	When the employee is working for a temporary working agency, but assigned to a user company. Mostly on a fixed-term base. Not similar to *temporary work*.
temporary work	Used by Eurostat and many other official statistics: includes *temporary agency work* but mainly *fixed-term contracts*.
tempworkers	Those categorized by the definition *of temporary work*
training programs	Programs aiming to enhance the productivity and employability of participants, by learning new skills.
wage subsidies	Subsidies to encourage employers to hire new workers or to keep workers instead of laying them off.
WEO	World Economic Outlook: semi-annual publication of the IMF.